FEDERAL RESERVE BOARD MEMBERSHIP AND STRUCTURE

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

S. Res. 209; S. Res. 247; S. Con. Res. 40; S. 971; S. 1609; S. 1691; and S. 1859

LEGISLATION CONCERNING FEDERAL RESERVE BOARD STRUCTURE AND/OR MEMBERSHIP

DECEMBER 7, 1981

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FEDERAL RESERVE BOARD MEMBERSHIP AND STRUCTURE

MONDAY, DECEMBER 7, 1981

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met, at 2 p.m., in room 5302 of the Dirksen Senate Office Building; Senator Jake Garn (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The committee will come to order only for the purpose of starting on time. I anticipated that since most of the witnesses are Senators, it will be impossible for this chairman to start the Banking Committee hearing on time. I know my colleagues well enough. But I do not want to break my unbroken record by not starting a hearing on time. Therefore, the hearing has started on time, and now we will recess until we get a witness.

[Recess.]

The CHAIRMAN. We will reconvene. I will go ahead with my opening statement while we are waiting for Senator Jepsen.

APPOINTMENT OF MEMBERS CRITICIZED

Section 10 of the Federal Reserve Act says, and I quote:

> In selecting the members of the Board of Governors not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests and geographic divisions of the country.

I have repeatedly stated my concern that while recent appointments to the Board of Governors may have conformed to the letter of this law, they have not conformed to the spirit. In particular, I do not believe that recent appointments to the Board have created a membership that, as is intended in the Federal Reserve Act, represents the broad range of geographical and economic interests in this country.

As evidence, I point to the fact that six of the seven current Board members spent most of their professional lives, before joining the Board, in Washington or with the Federal Reserve System itself in a different capacity:

Paul Volcker was president of the New York Fed.

Henry Wallich, while he was a professor at Yale, also worked on the staff of the New York Fed, on the President's Council of Economic Advisers and at the Treasury Department.

Chuck Partee was the Director of Research at the Board of Governors.

Nancy Teeters came from the staff of the House Budget Committee.

Emmitt Rice came from a Washington, D.C. bank.

Lyle Gramley came from the President's Council of Economic Advisers and had previously worked at the Board.

At the time of Lyle Gramley's nomination, I withheld my judgment on Mr. Gramley until the day of the markup and finally decided to vote for him because it certainly was not his fault that he was involved in this particular practice. I announced to the then Carter adminstration that in the future, if they did not follow the intent, both the spirit and the letter of the Federal Reserve Act, as amended in 1922, that I would oppose any future nomination to the Board, regardless of how well qualified the persons were individually.

Recent nominations have gone far astray from the geographic representation intended in the act if somebody went to college in California, that made him from the West and similar subterfuges to say they were from a particular Federal Reserve district. The Reagan administration should be put on notice that this Senator still feels the same way. If they send up the traditional type of person that has been nominated over the past few years, whoever that person is, I will do what I can to see that that nomination never reaches the floor of the Senate.

The law is very clear, and I think it should be followed. Moreover, the one Governor who did not spend the majority of his previous professional life in Washington or working for the Federal Reserve elsewhere, Vice Chairman Frederick Schultz, is the Governor whose term expires next month.

This afternoon's hearing is on seven resolutions and bills, which are all now before the Banking Committee, dealing with upcoming Presidential nominations for new members of the Federal Reserve Board and/or with the very structure of the Board itself.

Along with Senator Jepsen and 33 other Senators, I have sponsored S. Res. 209 which points out that the:

> present composition of the Board does not conform to the spirit of * * * statutory provisions and no President since 1959 has appointed an individual from either the agricultural or commercial sector.

The resolution goes on to call for the future following of the "fair representation" provision of the Federal Reserve Act providing for agricultural, commercial—including small business—and broad regional representation on the Board of Governors.

Other resolutions and bills call for the naming of a representative of a specific economic constituency, such as small business, to the Board and/or a change in the Federal Reserve Act's list of specific economic constituencies that are to be represented on the Board of Governors.

Once before Congress amended the listing of economic constituencies to be represented on the Federal Reserve Board. The Federal Reserve Act as passed in 1913 said that, in nominating a member of the Federal Reserve Board: "the President shall have due regard to a fair representation of the different commercial, industrial, and geographic divisions of the country." In 1922, two

additional economic constituencies—financial and agricultural interests—were added to the list, and the language of section 10 was changed to read, as it does today, that: "The President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests and geographic divisions of the country."

On the other hand if we start down the road of naming very specific constituencies that should be represented on the Board of Governors, where do we stop?

Shouldn't homebuilders and realtors likewise have their representatives?

Shouldn't automobile companies and dealers also have their representative?

Shouldn't retired Americans have their representative?

Shouldn't mayors and State officials have theirs?

Shouldn't organized labor have its representative?

Other bills and resolutions now before the Banking Committee would change the very structure of the Board of Governors. Among the proposals are to make the terms of the Board's Chairman and Vice Chairman concurrent with the President's term or change their current 4-year statutory term to "serve at the pleasure of the President"; second, to shorten the 14-year term to either 7 or 5 years.

Third, to increase the number of Board members from seven to nine or give both the President pro tempore of the Senate and the Speaker of the House of Representatives power to appoint a Member of Congress as an ex officio member of the Board.

FAIR REPRESENTATION TEST NOT BEING MET

In sum, this afternoon I believe there are two groups of issues before the committee. One is have recent appointments to the Board of Governors followed the spirit as well as the letter of the Federal Reserve Act and is there a need to call on the President to follow the spirit of the act in making future nominations?

The second group of issues is: is there a need at this time to go even further and change the language of section 10 by adding to the list of economic constituencies to be represented on the Board or, even more drastic, to change the very structure of the Board?

Finally, I should point out that this hearing could hardly be more timely, for amendments are expected to be offered on the Senate floor this afternoon dealing with the subjects of this hearing.

Ladies and gentlemen, I cannot stress enough that I feel very strongly that the Board has not met the fair representation test as outlined in the 1913 act, as amended in 1922 and that is why I favor the Jepsen approach where we would, merely by resolution, make sure that this administration understands that we expect the existing legislation to be followed.

But I very much, on the other hand, oppose naming additional specific constituencies that must be represented. I think the law is adequate. It certainly gives room for the President to nominate any of the types of interests that have been discussed in specific legislation. I think it would be very wrong for this committee or the

Congress to restructure the Board and start naming particular groups that should serve.

However, I renew my remarks from the Lyle Gramley hearings, directed at President Carter, to President Reagan. Whether this resolution passes the Senate or not, I do not believe that this committee will approve someone who does not fit those general guidelines.

But again, I think general guidelines, asking the President and this administration to follow the intent of the Federal Reserve Act rather than naming specific constituencies, is the much preferable way to go. Of all of the proposals that I would most vociferously oppose, that would be one that would place Members of Congress, even in an ex officio capacity, on the Federal Reserve Board. I cannot think of anything that would be more disastrous than putting the burglars who have so botched up the fiscal policy of this country on the Board. Even ex officio, so that they could botch up the monetary policy, as we have done here as Congressmen.

So I would now, once again, recess the hearing, hoping that one of my colleagues will arrive. [Recess.]

Senator Jepsen, we have been eagerly waiting your attendance. I have just completed my opening statement expressing my support for your approach to this issue. S. Res. 209, which I sponsored with you, along with 33 other colleagues, that would direct the President to follow the intent and the spirit of the Federal Reserve Act, and I quoted that in my testimony. I believe it is adequate to cover what we want to accomplish. Rather than other approaches we will hear about today that argue for changing the law and requiring that specific constituencies should be included on the Board.

We are pleased that you have taken the time to be here today, and we will be happy to hear your testimony at this time.

STATEMENT OF ROGER W. JEPSEN, U.S. SENATOR FROM THE STATE OF IOWA

Senator JEPSEN. Before delivering the body of my testimony, I want to thank you personally for having this hearing and for the technical advice from you and your staff. It has meant a great deal to us, and I appreciate it very much.

On September 11, I introduced S. Res. 209, asking the President, the Senate, and the Senate Committee on Banking, Housing, and Urban Affairs to assure that the specific provisions of the Federal Reserve Act providing for agricultural, commercial, and broad regional representation on the Board of Governors, are followed when a replacement for Frederick Schultz is named sometime in the next month.

To date, the resolution now has 36 cosponsors, including the distinguished chairman of this committee. Support comes from both sides of the aisle, and I am hopeful that this bipartisan backing will continue.

The motivation behind the amendment is twofold—existing law and commonsense. The Federal Reserve Act of 1913 which created the Federal Reserve System provides that "in selecting members to the Board, the President shall give due regard to a fair representation of financial, agricultural, industrial and commercial interests * * *."

Now that reads pretty clear to me. The right of farming and small business interests to participate directly in the formulation of monetary policy is not a question of interpretation. It is one of law.

Yet of the 60 individuals who have served on the Board of Governors longer than 6 months, only 7 can claim any agricultural experience. Since 1959, not one single appointee has come from a farming background.

Of the 23 people who have been appointed to the Board of Governors in the last 20 years, only 1 can legitimately point to a connection with American small business.

What this means is clear enough. For more than two decades, the original intent of the Federal Reserve System's enabling legislation has been given little more than lip service. This just is not right.

But the motivation is more than simple statute. The Congress included agriculture and small business in section 10 of the Federal Reserve Act for a very good reason, and that is commonsense. These two sectors produce well over 50 percent of national income and 53 percent of American jobs. Our farms and small businesses create 75 percent of all new employment. They have always been and remain the principal source of dynamic growth in the country, and this is a fact that is too often forgotten when the Congress is designing economic policy. The progress of American entrepreneurs affects their own situation and that of the economy.

The real issue at stake here goes beyond these mere facts. The effects of monetary policy on agriculture and small business are not just numbers on a page. They reflect real human costs.

In the absence of affordable credit, financing for mortgages, building, inventories, expansion, research, durable goods, seed, fertilizer—all stop. Businesses and farms that have been in one family for generations are threatened with bankruptcy. Lifelong employment is interrupted, sometimes permanently.

My proposal speaks to these sorts of things. America's most important economic sectors are also her most credit sensitive. Commonsense offers almost as strong an argument in favor of Senate Resolution 209 as the statutory language of the Federal Reserve Act, and this is the thinking behind Senate Resolution 209.

For almost 1 year now, Mr. Chairman, the American people have been asking Congress for relief from high interest rates. The passage of the President's program for economic recovery was an important step toward answering these concerns. Already we have seen some very positive results.

The prime rate today is 15.5 percent compared with 21.5 percent under the Carter administration 1 year ago at this time. By addressing the underlying long-term weaknesses of the economy and rejecting short-term quick fixes, we are also seeing short-term improvements. There are no overnight miracles in sight, but at least the worst is clearly behind us.

Senate Resolution 209 offers a complement to this progress. It sends a powerful message back to the 23 million agricultural workers and the 45 million small business employees:

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One, that the Senate is aware of the devastating impact of high interest rates on their lives.

Two, that we recognize their right to participate in finding a solution to it.

Three, that we are doing something concrete to enforce that right.

What the measure does not do is equally important. It is neither a statement of monetary policy nor a restriction on the prerogatives of the President and this committee. It is an expression of the sense of the Senate, not a public law.

Mr. Chairman, I think we need this kind of resolution. I am hopeful the committee will be of the same mind. My thanks for the privilege of testifying before you and my thanks on behalf of myself, my staff, and the 36 cosponsors of Senate Resolution 209 for both your insight and your support of this activity.

The CHAIRMAN. We are pleased that you initiated this proposal. I would have one question for you.

Obviously, since I am in agreement with you, I am not going to question you in great detail about a proposal which I think should be passed. But do you agree with me that we should not specifically legislate what you and I are trying to accomplish?

Your last statement was referring to that, that this was the sense of the Senate resolution—to let the administration know how we felt—but at this time we should not require statutory changes to mandate specific constituencies by law.

Senator JEPSEN. Yes; I do agree, Mr. Chairman, I certainly think that when one starts to change the actual law, you get into the danger, that we have discussed before, of mandating every slot and then pretty soon you run out of room in the law to provide any latitude, commonsense, judgment, or executive prerogative in the appointment of people to this Board or any other.

The CHAIRMAN. The usual answer, when you run out of specifics, is then you add more members, so that you can add more specifics. I do not like that trend at all, inasmuch as I may have differences with the Federal Reserve Board and their policies from time to time, and I certainly have not been afraid to make those feelings known. I still value very highly the independence of the Fed and think that this is a more proper way to get a broader representation on the Board, rather than trying to take away their independence by mandating.

Senator JEPSEN. I agree. The fact that we have an administration and a President at this time, which more than at any time in the last half century, has the across-the-board support of the American people, allows me to expect and hope that our resolution would be considered for just what it is, and that is to remind everybody that is concerned with this issue of the statutory needs and rights of the groups as we have suggested, and of the history that has transpired here, which contradicts those needs and rights.

The CHAIRMAN. I would make the point as I did in my opening remarks, that we may have an unusual opportunity to vote on this proposal this afternoon. Even though the hearings are being held today, there is a small business bill that will come up either later this afternoon or tomorrow, with the expectation that Senate Resolution 209 may be offered as a substitute to an amendment. So I

would hope that our colleagues would be aware of that possibility and vote for it.

Now if this were not just the sense of the Senate resolution, I would oppose doing that prior to committee action. I think it would be improper procedure for us to act on specific legislative proposals on the floor before the committee had had an opportunity to fairly consider a piece of legislation. As a matter of fact, it is possible that if the defense appropriations bill had not lasted longer last week, we might have had a vote occurring on the floor before the hearings today.

Unless you have anything else to add, I would compliment you on your initiative on Senate Resolution 209 and thank you for your testimony today.

Senator JEPSEN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Next we have a panel of Edison Zayas, economist, National Federation of Independent Business, and Robert Mullins, legislative director, National Farmers Union.

STATEMENTS OF EDISON ZAYAS, ECONOMIST, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, ACCOMPANIED BY MICHAEL ROUSH

Mr. ZAYAS. I am an economist in the research department of the National Federation of Independent Business. Accompanying me today is, on my right, Mr. Michael Roush, of our Federal legislation department. On behalf of NFIB and its membership, which is in excess of 500,000 small and independent member firms, I appreciate the opportunity to appear before your committee.

Our reason for being here today is to emphasize the tremendous relevance the conduct of monetary policy has on the health of the small business community and to voice our concerns regarding the upholding of the fair representation provision in section 10 of the Federal Reserve Act. Of all the problems confronted by small business, none are as devastating in their effects as spiraling inflation and the inevitably high interest rates that accompany price instability.

DIFFICULT TIMES FOR SMALL BUSINESS FIRMS

Since 1979, the driving force of widespread inflationary expectations has pushed interest rates to levels which have choked off aggregate demand, greatly increased costs and created an atmosphere of uncertainty. As a result, the last 2 years have been particularly difficult times for small firms, as earnings have been squeezed, employment growth stifled and productivity enhancing capital expenditures held back significantly from desired levels.

While these problems have not been limited to small firms alone, small businesses are less capable of absorbing the shocks as they typically operate on a much smaller financial margin for error. In short, the inflationary periods and the high interest rates that accompany these high rates of inflation have been disastrous for the small business community. As a result, the small business community feels that it has a very strong interest in seeing that the inflationary policies of the past are not repeated, to the extent

that the course of monetary policy largely determines the rate at which prices will grow and the level at which interest rates will settle.

We in NFIB feel the small business community has a direct stake in monetary policy decisions and the composition of the Board of Governors should reflect the importance of understanding the small business community's role in our economy. As a result, NFIB supports any conscientious efforts by the Senate to pass a resolution which states that in light of the vacancy on the Board of Governors of the Federal Reserve System occurring on January 31, 1982, the President of the United States, U.S. Senate and the Senate Committee on Banking, Housing, and Urban Affairs should comply with the fair representation provisions of the Federal Reserve Act as they apply to small business.

Clearly, the present composition of the Board does not conform to the spirit of the statutory provisions in the Federal Reserve Act. We at NFIB ask that the President, this committee, and the U.S. Senate fill the upcoming vacancy on the Board of Governors with an individual who, in addition to possessing all of the necessary technical skills, has a proven familiarity with the macroeconomic role of small business and with the manner in which small firms are affected by policy actions and overall economic activity.

Mr. Chairman, the appointment of such an individual would be a signal to over 3½ million small employing firms that this Congress and this administration recognizes the vital role small business plays in the American economy.

Thank you very much, Mr. Chairman.

[Complete statement follows:]

NFIB National Federation of Independent Business

STATEMENT OF

EDISON R. ZAYAS

ECONOMIST
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Before: Senate Committee on Banking, Housing and Urban Affairs

Subject: Small Business Representation on the Board of Governors of the Federal Reserve System

Date: December 7, 1981

Mr. Chairman, I am Edison Zayas, Economist on the Research Department Staff of the National Federation of Independent Business (NFIB). Accompanying me today is Mr. Michael Roush of our Federal Legislation Department. On behalf of NFIB and its membership, which is in excess of 500,000 small and independent member firms, I appreciate the opportunity to appear before your committee. Our reason for being here today is to emphasize the tremendous relevance the conduct of monetary policy has on the health of the small business community, and to voice our concerns regarding the upholding of the fair representation provision in Section 10 of the Federal Reserve Act of 1913.

For the past ten years, the condition of the small business community has been severely weakened by ill-conceived government policies that fostered weak sales growth, high interest rates, high inflation, rising income and labor taxes, and excessive government regulations. Of all of the problems confronted by small business, however, none are as devastating in their effects

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as spiraling inflation and the inevitably high interest rates that accompany price instability (see Chart 1). Since 1979, the driving force of widespread inflationary expectations has pushed interest rates to levels which have choked off aggregate demand, greatly increased variable costs, and created an atmosphere of extreme uncertainty. As a result, the last two years have been particularly difficult times as earnings among small firms have been squeezed, employment growth stifled, and productivity-enhancing capital expenditures held back significantly from desired levels (see Charts 2 and 3). While these problems have not been limited to small firms alone, small businesses are less capable of absorbing those shocks as they typically operate on a much lower financial margin for error compared with larger firms.

Small businesses are primarily price-takers and therefore exercise little control over the prices they receive on the sale of their goods and services. At the same time, small businesses have little control over the costs of their inputs, and are forced to accept the ever-rising cost of their supplies. This places small firms in the precarious situation of either passing on the higher costs of their supplies to the consumer, or of absorbing the price increases in order to remain competitive with larger firms. To make matters worse, inflationary periods add to the cost of credit obtained by small business, since lenders must incorporate an inflationary premium to their contract rates of interest based on inflationary expectations. The resulting higher nominal rates of interest act as a further drain on a small firms's cash-flow position, making it even more difficult to finance business operations out of retained earnings. Finally, and perhaps most importantly, an economy characterized by high and volatile interest rates and inflation creates an atmosphere of uncertainty, making it hard for small business managers to plan inventory

purchases and capital expenditures (capital expenditure plans are especially sensitive as shown in Chart 3). A firm's ability to correctly anticipate credit market conditions is pivotal in purchasing decisions since an inaccurate assessment can eliminate expected profit margins on the investment. From the fourth quarter of 1973 (the starting date of the NFIB Quarterly Economic Report for Small Business) through the third quarter of 1979, NFIB members had little trouble in assessing credit market conditions. In fact, during that period we were making accurate predictions of movements in the prime rate of interest based on our membership's responses in our Quarterly Economic Report relating to their perceptions of expected credit market conditions. Since then, however, our membership has had great difficulty in accurately anticipating credit conditions as reflected in our inability to continue making accurate prime rate forecasts based on those membership responses. To the extent that small business owners do not benefit from the presence of specialized advisors, the inability to accurately anticipate credit conditions introduces an element of uncertainty that is particularly damaging to small firms. In short, inflationary periods and the high interest rates they are associated with, are especially destabilizing to smaller firms. As a result, the small business community clearly has a strong interest in seeing that the inflationary policies of the past are not repeated.

Small business recognizes that it is acutely sensitive to the public policy decision making process, and that it must become an integral part of that process. This participation is vitally important in the monetary policy decisions arrived at by the Federal Reserve Board of Governors. To the extent that the course of monetary policy largely determines the rate at which prices will grow (and the level at which interst rates will settle), we at NFIB feel

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that the small business community has a direct stake in monetary policy decisions, and that the composition of the Board of Governors should therefore reflect the importance of understanding the small business community's role in our economy. Although Section 10 of the Federal Reserve Act of 1913 states that in selecting members to the Board of Governors,

> "...the President shall have due regard to a fair representation of the different commercial, industrial, and geographic divisions of the country..."

to our knowledge no President has ever purposefully appointed an individual who has a proven and extensive understanding of the unique characteristics and problems of small business. Given that the small business community constitutes the largest part of the agricultural and commercial sectors of our economy, and that 40% of our gross national product is accounted for by small business, past failures to appoint individuals who explicity represent such a large segment of the U.S. economy have clearly gone against the statutory fair representation provisions in the Federal Reserve Act. As a result, NFIB supports any conscientious efforts by the U.S. Senate to pass a resolution which states that in light of the vacancy on the Board of Governors occurring January 31, 1981, the President of the United States, the United States Senate, and the Senate Committee on Banking, Housing and Urban Affairs should comply with the fair representation provisions of the Federal Reserve Act as they apply to small business.

We at NFIB ask that President Reagan, the Senate Committee on Banking, Housing and Urban Affairs, and the U.S. Senate fill the upcoming vacancy on the Board of Governors with an individual who, in addition to possessing all the necessary technical skills, has a proven familiarity with the macroeconomic role of small business, and with the manner in which small firms are affected by policy actions and overall economic activity. The present composition of the Board clearly does not conform to the spirit of the statutory provisions in the Federal Reserve Act. Given the significant impact Federal Reserve policy has on small firms, the appointment of an individual with a proven expertise in economic issues relating to small business would be a signal to over 3½ million small, employing businesses that this Congress and Administration recognizes the vital role small business plays in the American economy.

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CHART 1

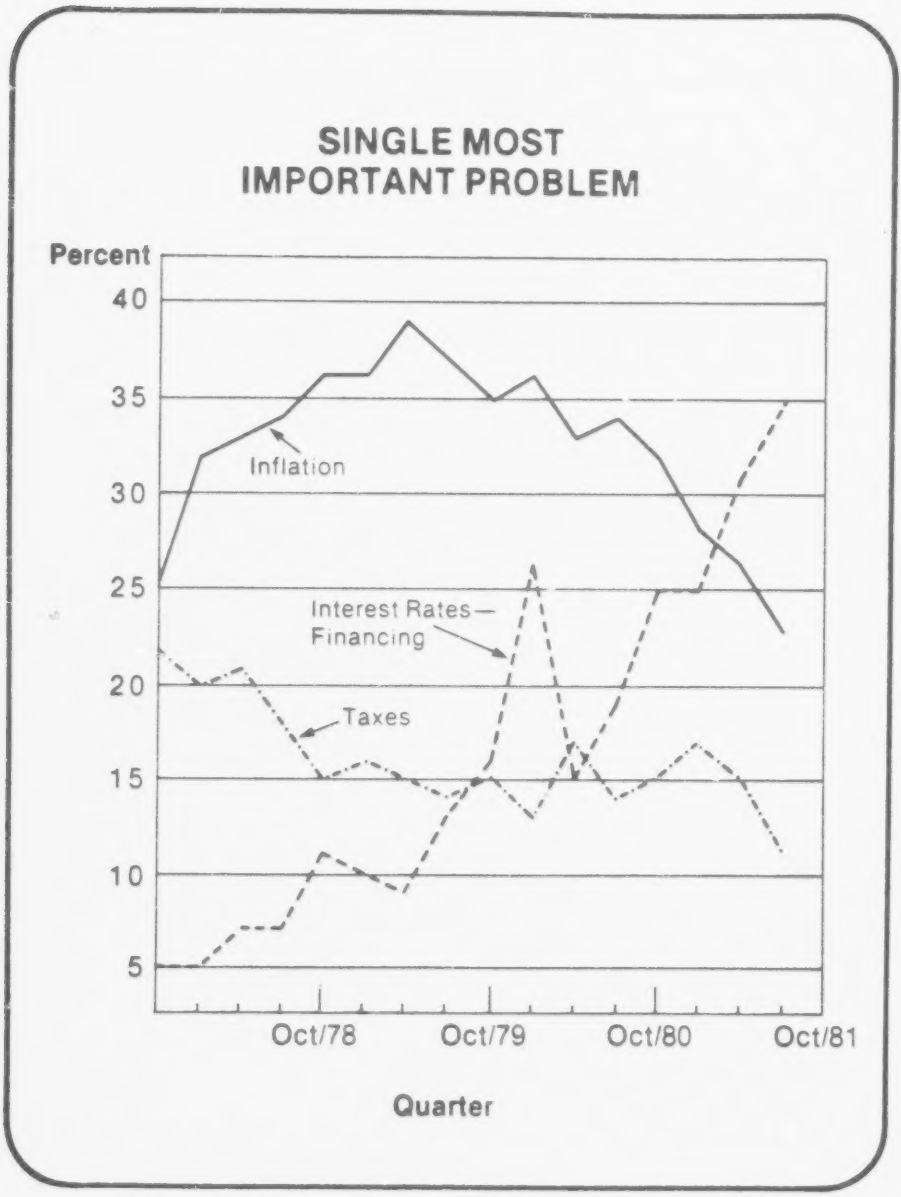

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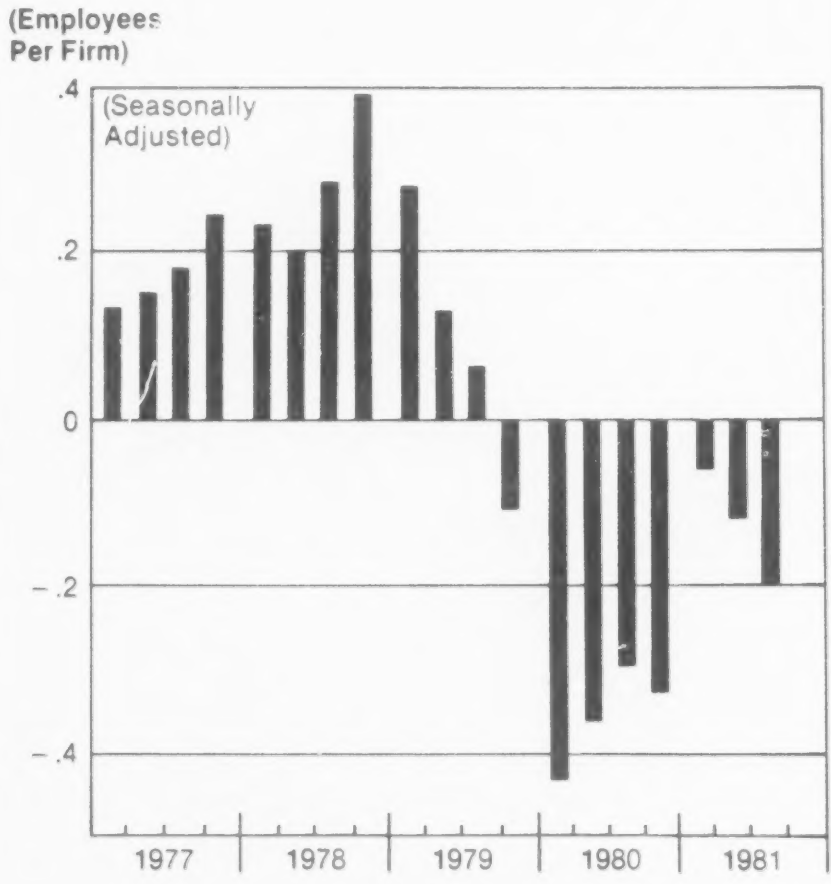
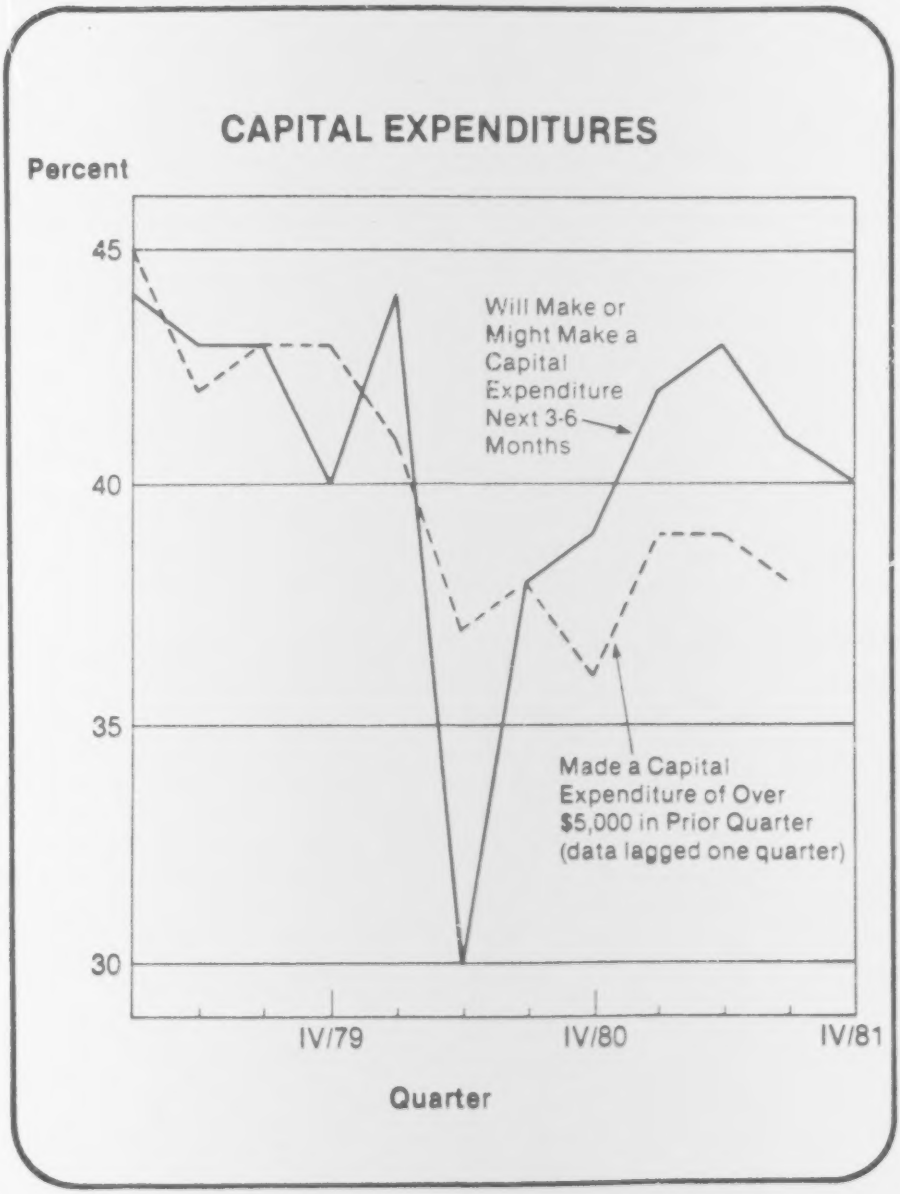
CHART 2

CHANGES IN SMALL BUSINESS EMPLOYMENT



Source: National Federation of Independent Business

CHART 3


CAPITAL EXPENDITURES
Percent
45
40
35
30
Will Make or Might Make a Capital Expenditure Next 3-6 Months
Made a Capital Expenditure of Over $5,000 in Prior Quarter (data lagged one quarter)
IV/79
IV/80
IV/81
Quarter

The CHAIRMAN. Thank you very much. Mr. Mullins.

STATEMENT OF ROBERT MULLINS, LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. MULLINS. Thank you, Mr. Chairman.

The CHAIRMAN. Before you start, I must announce this earlier than I thought. The small business bill S. 81, will be up, in about 5 minutes, on the floor.

Mr. MULLINS. Thank you, Mr. Chairman.

I am Robert Mullins, legislative director of the National Farmers Union. I am pleased to appear before you, particularly today, Mr. Chairman, as you are a Senator from one of our great Farmers Union States, the State of Utah. I bring you greetings from our president, Roy Holman. I think you and he have visited time and time again about this very subject.

The CHAIRMAN. That's correct. We certainly have.

Mr. MULLINS. My national president, Mr. Stone, and members of our staff, appeared more times this session of Congress on this and other related economic problems than I guess anything else outside the farm bill. The economic policies that are being followed today are just devastating to the American farmer.

INTEREST OUTLAYS MORE THAN NET INCOME

Mr. Chairman, this year interest payments by American farmers are going to be more than net farm income. We are facing a real catastrophe in rural America, simply because of that. Delegates to our last national convention, taking cognizance of the money and credit situation, adopted a policy that requested that the Federal Reserve Board should be compelled to conform its policies to the Full Employment and Balanced Growth Act of 1978. It should be made accountable for its policymaking decisions.

As the authors of several other measures before the committee today have pointed out, the basic Federal Reserve statute is quite specific in directing that: "Due regard shall be given to a fair representation of financial, agricultural, industrial and commercial interests and geographical divisions of the country."

It is rather obvious, as has been pointed out in S. Res. 209, that the present composition of the Board does not conform to the spirit of the statutory provisions. Statutory requirements for broad representation on the Board and equitable coverage have been consistently and almost totally ignored. This was amply documented in the 1976 House Banking study, "Federal Reserve Directors: A Study of Corporate and Banking Influence" and other studies.

At this point, Mr. Chairman, I would like to commend to the committee a report done in 1964 by the Subcommittee on Domestic Finance of the Committee on Banking and Currency of the U.S. House of Representatives by the late Hon. Wright Patman. Although this study was done almost 20 years ago, the questions we are addressing today are exactly the same that the chairman addressed some 17 years ago. And although I personally do not agree with all of the recommendations made in this report, I think it would be beneficial for the committee to take a look at it, because

it makes some of the very same recommendations that we are talking about in these resolutions right here.

Almost 20 years ago, things have not changed that much. We have two principal observations to make. No. 1, that the Federal Reserve System is not serving American society well and, No. 2, the faulty judgments being made by the Board are the result of a faulty structure, related to the narrow perspective of Members of the Board of Governors.

The dominant philosophies of the Federal Reserve officials today are scarcely distinguishable from those of 1965, 1957, 1949, 1937, or 1928. Today's strategies are based on the same notions responsible for major errors in the past. The question is, what if anything, can be done to change these policies. We believe the policies would change if the Board represented a broader spectrum of the American economic society.

We find several of the proposals before this committee have value. In S. 971, making the terms of the Chairman and the Vice President concurrent with that of the President of the United States, I think has some value. Senator Pressler and Melcher's proposal to require at least one member of the Board have some agricultural experience. The provisions of S. 1859 to limit the tenure from 14 years to 8 years. The declaration of Concurrent Resolution 40 by Senator Burdick expressing the sense of Congress that the new vacancy should be filled with a person of substantial farm or small business experience. Provisions of S. 1691, increasing the size of the Board, limiting terms and having the Chairman and Vice Chairman serve at the pleasure of the President.

And finally, I think the one that Senator Jepsen just spoke of, S. Res. 209, that the representational guidelines of current law simply be followed certainly has merit. That is the simplest thing in the world to do. We think the time has come for some change. You know, if Rip Van Winkle had gone to sleep in 1920 or 1940 or 1960 and woke up 20 years later, there is only one thing in American life he would find the same, and that's the Federal Reserve Board.

Thank you, Mr. Chairman.

[Complete statement follows:]

National Farmers Union

STATEMENT OF

ROBERT J. MULLINS
DIRECTOR OF LEGISLATIVE SERVICES
NATIONAL FARMERS UNION

PRESENTED TO

UNITED STATES SENATE
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C.
DECEMBER 7, 1981

I am Robert J. Mullins, legislative director of National Farmers Union, an organization of more than 325,000 family-scale farm operators around the nation.

We have appeared a number of times before Congressional committees this year to document the punishing effect which Federal Reserve money-supply and high-interest-rate policies are having upon agriculture.

An attachment to this statement, summarizes earlier testimony by George W. Stone, president of National Farmers Union, enumerating the ten ways in which these interest rates have been damaging to the farm economy.

At this point, we would only add that interest outlays by farmers this year will be about $20.1 billion, in all probability equalling or exceeding projected total net farm income for the year.

Taking cognizance of the money and credit situation, delegates to the 79th annual convention of National Farmers Union, meeting March 1-4, 1981, at Orlando, Florida, declared:

> "The Federal Reserve Banking Board should be compelled to conform its policies to the goals of the Full Employment and Balanced Growth Act of 1978, and it should be made accountable to the Congress for policy-making activities.
>
> "Federal Reserve statutes should be amended to require representation of agriculture, small business and labor on the Federal Reserve Board."

As the authors of several of the measures before the committee today have pointed out, the basic Federal Reserve statute is quite specific in directing that "due regard shall be given to a fair representation of

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financial, agricultural, industrial and commercial interests, and geographical divisions of the country."

It is rather obvious, as is pointed out in S. Res. 209, that "the present composition of the Board does not conform to the spirit of these statutory provisions."

The statutory requirements for broad representation on the board and equitable regional coverage have been consistently and almost totally ignored. This was amply documented in the 1976 House Banking study, "Federal Reserve Directors: A Study of Corporate and Banking Influence", and in other studies.

We commend the authors of the several bills and resolutions before the Committee for focussing on the problem, even though they differ in the nature of the remedy which they propose.

We have two principal observations to make:

- o The Federal Reserve system is not serving American society well, and
- o The faulty judgments being made by the Board are the result of faulty structure, related to the narrow perspective of members of the Board of Governors.

Throughout the 68-year history of the institution, the directors of the Federal Reserve have come largely from the same narrow spectrum of Eastern banking and corporate types. The process has become an inbred one, repeatedly bringing in appointees with a banker's parochial view of the national interest.

Because of this one-dimensional make-up of the Federal Reserve Board, it has been rare for the system to learn from past mistakes -- or even to acknowledge them.

The dominant philosophies of Federal Reserve officials today are scarcely distinguishable from those of 1965, 1957, 1949, 1937, and 1928-1933.

Today's strategies are based on the same notions responsible for major errors in the past.

The Federal Reserve today is carrying out a policy based on contraction of money supply and maintenance of high interest rates. It is not unlike the strategy of 1928, when a Federal Reserve Board launched a one-third contraction of the money supply and in doing so changed what might have been a routine recession into the worst depression in the Nation's history.

The current recession is an interest-rate recession, made significantly worse by the persistence of the Board in a policy which creates economic havoc.

The question, of course, is what if anything can be done to change the policies.

The policies would change if the broad representation intended by the basic Federal Reserve statute were observed.

The policies would change if the Federal Reserve Board would observe the obligations imposed upon it by the Employment Act of 1946 and the Full Employment and Balanced Growth Act of 1978.

However, there appears no inclination on the part of the Board to perceive itself as a part of the "economic team" of the executive branch, or to recognize any responsibility to the Congress.

It appears to us therefore that structural changes will have to be mandated, even though they may be modest to begin with.

We find a number of desirable essentials in the bills before the committee:

- o The proposal in S. 971 (Cranston) to make the terms of the chairman and vice-chairman concurrent with that of the President of the United States.

- o The proposal in S. 1609 (Pressler and Melcher) to require at least one member of the Board to have "demonstratable experience in agriculture", and one to have such experience in small business.

- o The provisions of S. 1859 (Kassebaum) to limit tenure to eight years, instead of 14, and to include all 12 regional banks in voting representation on the Open Market committee.

- o The declaration in S. Con. Res. 40 (Burdick) expressing the sense of the Congress that the 1982 vacancy on the Board be filled with a person with "substantial farm or small business experience."

- o The provisions of S. 1691 (Hawkins) increasing the size of the Board to broaden representation, limiting length of terms, having the chairman and vice-chairman serve at the pleasure of the President, requiring annual audits by the Comptroller General, and subjecting the system to the Congressional authorization and appropriations process.

- o The clear expression in S. Res. 209 (Jepson and Garn) that the representational guidelines of the statute be followed henceforth.

In conclusion, we think that the time has come for at least a beginning of change.

If Rip Van Winkle had gone to sleep in 1920, or 1940, or 1960, he could have risen later from a 20-year sleep, in all confidence that at least one aspect of American life would not have changed -- the prevailing economic strategy of the Federal Reserve Board.

Americans should not be condemned to paralysis for another 20 years in the misconception that nothing can be done to change the orientation of the policies of the Federal Reserve system.

Attachment A

TEN WAYS IN WHICH HIGH INTEREST RATES ARE DAMAGING TO AGRICULTURE

(From testimony of George W. Stone, President of National Farmers Union, to House Agriculture credit subcommittee, June 23, 1981.)

-- FARM INTEREST OUTLAYS. Farmers will pay more than $20 billion in interest in 1981 on their current debt of $180.5 billion compared with their outlays of $16.5 billion in 1980.

-- CCC LOAN RATE COSTS. The current CCC interest rate on commodity loans is 14⅜. At the existing 1981 crop loan rates, that is a cost to farmers of 46.40¢ a bushel on wheat and 34.80¢ a bushel on corn for 1981 regular loans. If the first year waiver of interest is terminated on farmer-held reserve loans, it will cost farmers 50.75¢ a bushel on wheat and 36.98¢ a bushel on corn.

-- REDUCED PROSPECTS FOR GRAIN EXPORTS. At the start of this year, it was predicted that U.S. farm exports would set a new record value of $48.5 billion in 1981. Now, because high interest rates affect the cost of handling grain inventories and due to other factors, predictions are that exports will have a value of only about $46 billion.

-- NO REDUCTION IN CREDIT USE. High interest rates are a crude and ineffective way of discouraging credit use, at least as far as farmers are concerned. At the end of March this year, farmer borrowings from major commercial banks was running 10% higher than a year ago, at a rate of $5.4 billion in loans per week, compared to $4.9 billion a year earlier.

-- INFLATION RATE IS ACCELERATED BY HIGH INTEREST RATES. Since high interest rates become wrapped up into costs of all industrial and consumer goods and services, they tend to aggravate inflationary pressures, rather than reduce them.

-- COST OF GOVERNMENT SHARPLY INCREASED. High interest rates inflate the cost of government at all levels. For the federal government alone, interest outlays for fiscal year 1982 will be $106.5 billion, up from $94 billion. The interest outlays in fiscal 1982 will be $65 billion higher than in 1977 when the basic cost of money was about 6%.

-- GOVERNMENTAL DEFICITS ARE AGGRAVATED. The $65 billion cited above would be enough by itself to bring the fiscal 1982 federal budget into balance. It is a waste which should no longer be tolerated.

-- ABILITY OF FARMERS TO GENERATE CAPITAL INTERNALLY IS REDUCED. In the year of 1970, U.S. farmers relied on new loans, or a net increase in loans, for only 5% of the cash sources of funds for their operations. In 1981, farmers are substituting credit for income at an alarming rate, with borrowing accounting for 23% of their cash sources of operating funds.

-- PURCHASING POWER OF CONSUMERS DIVERTED FROM FOOD, OTHER NECESSITIES. The tripling of effective interest rates since 1977 on consumer loans has diverted $30 billion of purchasing power from food, housing and other necessities. Indirectly, therefore, high interest rates depress the effective demand for products of American farms.

-- COMPETITION FOR FUNDS SIPHONS MONEY AWAY FROM THE FARM SECTOR. With the advent of high interest rates has come a proliferation of money market funds and other investment opportunities which are drawing several billion in loanable funds from agricultural purposes. The adverse effect upon country banks, which normally service farm borrowers, has been particularly notable.

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The CHAIRMAN. Thank you.

Mr. Zayas, in your statement, you say that given that the small business community constitutes the largest part of the agricultural and commercial sectors of our economy, would you then agree that small business per se does not have to have its own representative on the Board, i.e., one member could represent agriculture and commercial interests as well as small business. In other words, what I am saying is, farmers are small businessmen. We do not have to make distinction between small business and small farmer. You could wrap up several of those things in one individual. Would you agree with that?

Mr. ZAYAS. Yes, I would.

The CHAIRMAN. Would you agree with that, Mr. Mullins?

NUMEROUS REPRESENTATIONS CREATE UNWIELDY SIZE

Mr. MULLINS. Certainly; I agree with the statement that you made earlier, Mr. Chairman, that we better not start getting so specific that we have to increase the Board to a too unwieldy size to represent everybody.

The CHAIRMAN. I take it both of you would feel that if the law is followed as it was intended, both spirit and letter of the law, that the law is sufficient, and we do not need to get into many of these other proposals to try to mandate. Would you both agree with that?

Mr. ZAYAS. Yes; I would.

Mr. MULLINS. I certainly would.

The CHAIRMAN. At the time that I expressed my reservations about Mr. Gramley, not personally, but in general, I have to admit that I was not aware until after that hearing how specific the law was, in order to say that these things ought to be considered in making those selections. So I feel that if we can pass S. Res. 209 or something similar to it, and this committee lets the President know that we are serious about this, I think there are ample ways to handle that and make sure that the spirit and the letter of the law is followed without having to make statutory changes.

Mr. MULLINS. In the report that accompanied Mr. Gramley's recommendation the committee made it very clear that they expected the next member of the Board to represent those segments of the economic society that were not——

The CHAIRMAN. I flat-out said in the mark-up on his nomination, that that would be the case; that I was accepting him only because I had not made that announcement previously and it was not fair to him to apply that general policy to him as an individual, not having stated it before. So frankly, one of the purposes of this hearing today is to make sure that not just by word of mouth, but through a specific hearing, that the new administration gets the same word that this member of the committee tried to send President Carter at that time.

I feel very strongly that it has been ignored. As I said in my opening remarks, the geographic restrictions of not having more than one Board member from a Federal Reserve district has been easy to get around. All a nominee had to do was make a speech in some part of the country, and they would say he has been there,

therefore, he must be able to represent that part of the country. Or went to college or lived there temporarily, or whatever.

To me it seems the intent of the law was that a substantial part of their professional and personal life had been in the area that they were supposed to represent, that Federal Reserve district.

I appreciate your testimony very much. I have no further questions, unless either of you would like to make a closing comment.

VACANCY IMPORTANT TO SMALL BUSINESS COMMUNITY

Mr. ZAYAS. I would make one more point. The upcoming vacancy is particularly important to us, to the extent that Vice Chairman Schultz has been very accessible to the small business community whenever we needed him. So we consider the upcoming vacancy to be very important. And I might add, we would hate to see any partisan differences bog down a resolution which would express the sense of this Senate to the President, how important you consider the filling of this vacancy with an individual who at least has an understanding of the problems faced by the small business community.

The CHAIRMAN. I made the comment in my opening remarks that Vice Chairman Schultz was the only one of seven members who did not fit the mold we were talking about. His appointment is the one that is up in January. I think that argues for someone to replace him that fits the category of someone who has had experience in small business in general, whatever that type of small business may be, or representing the commercial interest.

Thank you, gentlemen, very much. We appreciate your testimony.

While we are waiting for Senator Pressler, I would like to ask unanimous consent that at the end of my closing remarks an editorial by the Washington Post on this subject be included in the record. I do that with some hesitation because it is so rare that the Washington Post ever agrees with me. When I saw this editorial I had to reexamine my position for 2 days to see if I wanted to stick with it. Nevertheless, it may be the only occasion I have to get a favorable editorial from the Washington Post. Therefore I happily ask that it be included in the record [see p. 55].

Senator Pressler, if you would like to come forward.

STATEMENT OF LARRY PRESSLER, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator PRESSLER. Mr. Chairman, I shall be very brief. Thank you, first of all, for hearing me. I am here to testify on my bill, S. 1609, although there are others similar to it that have been introduced, that perhaps the committee will see fit to blend them together in such a fashion that would be acceptable. I want to thank you very much for giving me this opportunity to testify.

I have introduced my bill because of my concern over the effects of high interest rates on small business persons and farmers in America. I know the chairman and members of this committee have also been concerned with that. My bill is an effort to make the Federal Reserve Board more responsive to the American people.

Although the Federal Reserve Act states that an effort should be made to have representation on the Board from various sectors of our Nation, in practice the Board of Governors of the Federal Reserve has been composed primarily of economists and bankers from the large metropolitan financial centers of the Nation. These Board members make monetary policy decisions that have a direct bearing on small businesses and farmers. They set the discount rate of the Federal Reserve which helps determine the rate of interest banks will charge.

Let me say, Mr. Chairman, that I have looked at the biographical backgrounds of many of the current members of the Federal Reserve Board, and they all have what appears to be experience in big banks, big conglomerates, or large international financial concerns. I do not see very many people with a farm or small business background on the Federal Reserve Board.

So once again, I must emphasize that high interest rates are currently the number one problem facing our small business persons and farmers today. Surveys have shown that high interest rates surpassed inflation as the major difficulty facing small business.

The agriculture sector of our economy has experienced incredible costs in the past decade. But, whereas these fertilizer, seed, and machinery costs have increased almost 200 percent per acre from 1967 to 1979, interest rates have increased 401 percent per acre in that time period and are estimated to have increased 200 percent more from 1979 to 1980. This means that in 1 year, interest rate costs per acre equal or exceed any of the other cost increases farmers have experienced in the past decade.

In my State of South Dakota, 10 percent of all the franchised car dealerships have gone out of business in the past year and a half, primarily because of interest rates that consumers are unable or unwilling to pay and also because of the great expenses of keeping automobiles in stock under current "floor plan" financing. The housing industry in my State and across the Nation is at a virtual standstill.

ACHILLES HEEL OF THE REAGAN ECONOMIC PLAN

Because of my firm belief that interest rates must be reduced before irreparable damage is done to the small entrepreneur who is so essential to our economy and Nation, I have taken a number of steps to bring down high interest rates. I have proceeded with a sense of urgency as some well known economists such as Allen Sinai of Data Resources, Inc., quoted in the August 3, 1981 Newsweek, and economists Henry Kaufman of Salomon Bros. and Albert Woinilower of First Boston Corp., quoted in the July 27, 1981 Time, have predicted interest rates as high as 25 percent for next year. Although the past weeks have seen some reduction in the prime rate, most would agree that for the average consumer and small business person, interest rates are still in the "irrelevant range," meaning, of course, too high still to be of any use to those who need credit to operate.

My efforts have included personal and written correspondence with the President, urging him to exert his influence over the

Federal Reserve to help bring down high interest rates. I have also spoken with Chairman of the Federal Reserve Paul Volcker about the serious effects these high interest rates are having. Last week I participated in a breakfast meeting with Paul Volcker with other Senators.

My contacts with the President have stressed that I fear high interest rates could be the Achilles Heel of the Reagan Economic Plan. High interest rates will bring our Federal deficit even higher by lowering activity in the economic areas.

My bill, S. 1609, would amend the Federal Reserve Act in order to give the American people more of a voice where political decisions on interest rates are being made. The Federal Reserve was created in 1913 and has been dominated by those persons involved in the world of high finance. Unfortunately, it is sometimes difficult for former presidents of some of our Nation's largest banks to maintain a clear view of the effects their policies are having on small business persons and farmers. My bill is designed to give those parts of our economy which are the backbone of our Nation a voice in Federal Reserve policy. It does this by requiring that at least one member serving on the Federal Reserve Board have demonstrable experience in agriculture and one in small business.

SHORTENING CURRENT TERM OF OFFICE

Other provisions of my bill include a change in the current 14-year term for Federal Reserve Board Governors. My legislation reduces this term to 7 years in a belief that long terms only serve to isolate Reserve Governors from the effects of their economic policies. With 7 years they will still have 1 year longer than Senators, which has been deemed to be a good period of time.

The other two changes I am suggesting are that Members of Congress serve as ex officio Members of the Federal Reserve and that the Board maintain statistics on loans made by size category of business in order that data may be accumulated with regard to interest rates and their effect on various categories of business by size.

I have pledged to continue working on this severe problem until relief is secured. I urge my colleagues to join with me in supporting these amendments to the Federal Reserve Act and in responding to the voices of our constituents who are drowning in a sea of high interest rates.

I would like to submit a copy of my bill and six cosponsors that I introduced on September 9, 1981. I thank you very much for hearing me.

The CHAIRMAN. Without objection, the bill will be entered in the record [see p. 46].

Senator PRESSLER. A lot of these people turn over before the time is up.

The CHAIRMAN. That's true. Very few of them can stand it for 14 years, there is no doubt about it.

Senator Pressler, by shortening the term of the Federal Reserve Governors to 7 years, your bill would result in appointments every single year. So during a first term, a President would appoint a majority of the Board. Would you have any concerns about this

undermining the independence of the Fed, with the President being able to appoint a majority of the Board during his first term?

Senator PRESSLER. Under Woodrow Wilson's plan when the Fed was set up, as I understand it, there was to be this independent study group concept. The problem is that people who have been appointed over the years have by and large had backgrounds as economists or officers with Chase Manhattan Bank or Citibank, or have worked for huge conglomerates, and they are more drawn, I suppose, to this type of a job. On paper maybe you could say at first glance they would know more about some of the issues of monetary policy, but in fact there are many people who like high interest rates. Some of the big institutions like high interest rates. And what has happened is that there has been a pattern that people who have been appointed have been from this group in our economy who benefit from high interest rates.

Now, you can benefit from high interest rates if you have money, or if you are able to borrow you can buy things cheaper because you have less competition to buy it. And I have been very concerned about this, because I think most of the people on the Federal Reserve come from such a background—I'm not saying that they are lacking in integrity, but from my point of view, and I come from a State that is small businessmen and farmers, it is a monetary issue that has gone through our country's history, but we have always been careful to keep that grass roots input into our institutions and the Federal Reserve does not have that.

So therefore, I think it would make the Federal Reserve a little bit more sensitive to what is going on by giving the President these appointments. I see nothing wrong with being responsive to change, and the President would be able to appoint who he wants. But if the President were unpopular, the next President would be able to shift it backwards and there would still be stability there. You would have 7-year terms. And so I think it would be an improvement.

POSSIBLE POLITICAL APPOINTMENTS

The CHAIRMAN. I do not disagree with your criticism of the present makeup of the Board. Not individually but as a group. I have stated that many times over the last couple of years. But from a practical standpoint again, I feel very strongly about the independence of the Fed. Whether I agree with the Governors or not, I don't want to politicize them. You made the comment that a President would be able to turn that around, but under this system of 7-year terms, a new President coming in after a President had served one term would be faced with a majority of the Board appointed by his predecessor and it would take him 4 years, his entire term, to change that. If you had a two-term President, he would have appointed every member of the Board while he was there. You would be turning one over every year during an 8-year term by two Presidents.

So, it seems to me you could politicize it. A new President coming in is an example of President Reagan; if he had come in under that system, the majority of the Board would have been appointed by President Carter and he would have had one appoint-

ment this year, one next year, and so on. I have some concerns about that.

Senator PRESSLER. The seven members of the Federal Reserve are nominated by the President but confirmed by the Senate, so if they became blatantly political appointments, I would guess that, depending on the political situation, the Senate would serve as a check. I can see your concern, but on the other hand, Congress was delegated in the Constitution this authority, and by giving it to the Federal Reserve we have given it away. And this would be—I think our forefathers and foremothers intended that the political system would control interest rates. I do not think that they envisaged that there would be an independent board doing it, and let me say that I have another thing going on in another committee about the FTC. I do not think that they are supposed to be independent legislators over there. I have got a used car resolution, but that is another story.

There is this effort of the two-House veto to bring more responsiblity back to Congress, and my legislation would bring more power back to Congress and responsiblity in this area to Congress and the President.

The CHAIRMAN. There is no doubt that it would, and having served on this committee for a long time now, let me give you an example of what I am talking about again reemphasizing that I do not always agree with the Fed. But I'm not sure that I want us dictating to them. There were bills the first year I was in the Senate to require that the Federal Reserve Board set certain monetary targets, and in that year they were talking about setting targets in the area of 13 to 15 percent. This was back in 1975. Arthur Burns sat at that very table and said that he would not go along with that. He was setting targets, as I remember—don't hold me to these exact figures, but in the area of 7 to 9 percent. I cannot imagine, Larry, what the prime rate would have been today and the inflation rate, had we had Congress achieving those kinds of increases in the money supply 6 years ago. It would have been incredible. We would be tickled to death with a 20 percent prime.

So there is a practical example of Congress trying to meddle with the Fed. The Fed was much wiser under the direction of Arthur Burns at that time, not to yield to that kind of pressure. I do not think we are really equipped as a body of 535 people to try and mandate that kind of specific economic policy. Certainly we have general oversight. The Federal Reserve is a creature of the Congress. But I do not intend to take a lot of your time or belabor the point.

Senator PRESSLER. I am not advocating doing away with the Federal Reserve. I think there is some merit to having people take an independent look at this. But what we have created, or what we have got over here, is something that is totally insensitive to what is going on in the country, from my point of view. I have here the biographical backgrounds of the members of the Board, and I'm not going to ask to put them in the record because you know them better than I.

The CHAIRMAN. They are already there in my opening statement.

Senator PRESSLER. You know better than I, Mr. Chairman, the Federal Reserve Bank of New York 1949 to 1950—I could go

through each one. Something has happened here with this creature that it is all big bankers and big businessmen, in terms of their economic background.

The CHAIRMAN. Not really big businessmen. Most of the Board now is government.

Senator PRESSLER. Big government.

The CHAIRMAN. There is an incestuous relationship the last couple of decades of internal appointments to the Fed rather than from business. They have come from the public sector, primarily economists, with the exception of Vice Chairman Schultz.

Senator PRESSLER. They have not come from the agricultural or small business background. And I hate to put a requirement on the President to make judgments such as these. I have urged the President to appoint someone from another sector, and I hope he does.

The CHAIRMAN. May I ask one more question, how your provision to have two Members of Congress serve as ex officio Members of the Board would work? Are you talking about them being voting members, or just sitting in on the meetings?

Senator PRESSLER. My thought was to have them be voting members, possibly, because that would bring an immediacy of what is going on in Congress and the country. I happen to believe that those of us who serve in Congress spend a lot of time listening to people—at least I hope we do. I hold listening meetings in my State every third weekend, spending my whole Christmas break going from one town to another listening to people. I just think that Members of Congress are more in touch with what is going on than members of the Federal Reserve Board, and it would be very good, since they are our creature and since we have created them historically, to keep a finger in what they are doing over there.

UNDERMINE THE INDEPENDENCE OF THE FED

The CHAIRMAN. Let me say in all fairness, so that there is not something in my previous remarks that I did not say to you. I do oppose that particular provision very much. I think it does tend to undermine the independence of the Fed. Furthermore, I feel very strongly that a point that has to be made, that we tend to blame the Fed generally. People tend to blame the Fed for high interest rates. I would just submit in the years I have sat on this committee and listened to testimony, that it would not matter what the makeup of the Fed was, if we had an entire seven-member membership all from small business and agriculture. Interest rates would still be fundamentally high because the underlying cause of those inflation rates has nothing to do with these people who think you can play a monetary game and fine-tune the economy. It has to do with carrying a trillion dollar debt and refinancing one third of that, every year adding to that debt. And whoever the Chairman of the Fed is, it does not make any difference. He has to monetize the debt sent to him by Congress.

The Board has an influence on interest rates. But Henry Kaufman and any economist will tell you as well, that the underlying inflation rate has other causes. Primarily it originates here in the Congress. That is why I made the comment in my opening re-

marks, and have made it many, many times: That for those of us who have mismanaged—speaking of "us" as the Congress—the fiscal policy, that I am not ready to put them on the Federal Reserve Board and have them botch up the monetary policy worse than it has already been botched.

Senator PRESSLER. Let me make a correction. They would be ex officio members for terms not to exceed 2 years, under my bill, so they would not actually have a vote.

But still, the point is—well, let me say that I agree with you. We in Congress have a great responsibility and we have—Congress has been a main culprit in this. In fact, you could build a case that it has been—the size of the deficit. It has great responsibility for what has happened.

On the other hand, the current situation—I think the discount rates that have been set and the way the money supply has been managed, at this particular time, is causing the deficit to be even higher, by slowing down small business, by slowing down housing starts, by slowing down a lot of economic activity that would result in revenue to the Treasury.

So—and I have said that I think that the extremely high interest rates we are experiencing may well be the Achilles heel of the Reagan economic program. And believe me, I hear more about high interest rates in my state than any other subject. And when I get over to the Federal Reserve, I really run into—they are not even aware, hardly, of what is going on out in the country, in my view. And that is the sense that I get of it.

Therefore, I think we need to take steps, not to abolish the Federal Reserve but to change it in such a fashion that it is more sensitized to what is going on in the country.

The CHAIRMAN. I thank you very much for your testimony.

Senator Hawkins?

STATEMENT OF PAULA HAWKINS, U.S. SENATOR FROM THE STATE OF FLORIDA

The CHAIRMAN. I have been waiting all year to get you before my committee. I am very happy to hear your testimony at this time.

Senator HAWKINS. Thank you.

I appreciate having this opportunity to discuss my proposal to reform the Federal Reserve Board.

The CHAIRMAN. Talking about interest rates, I should have said to Larry that I did not enjoy becoming chairman of the Banking Committee when the prime rate was 21.5 percent, and a week later everybody in the country wanted to know why I had not lowered it.

At least we can glory temporarily that it is down 6 percent since then, and since they give me the blame when it goes up, I am going to get some of the credit for it going down.

Senator HAWKINS. Absolutely. I'd say your attention to it is causing a lot of other people to be more concerned also.

BROADENING THE REPRESENTATION OF THE BOARD

The title of my bill is the "Federal Reserve Amendments of 1981," and it is cosponsored by Senator Metzenbaum. S. 1691 proposes sweeping changes in the operation of the Federal Reserve

Board which are long overdue, in my opinion. We propose substantial changes in the qualifications and terms of office for Board Governors, broadening the representation, and taking immediate action to place the Federal Reserve System on a budget.

I strongly believe these changes are essential if the confidence of the American people is to be restored in our central banking system.

I would like to take up these proposals now, one at a time:

Mr. Chairman, every respected school of economic thought holds that the Federal Reserve Board exercises enormous influence over our Nation's fiscal stability by determining the amount of credit available. Business and industry, homeowners, consumers, and the public sector are held hostage by a Board that dictates the price they must pay for borrowed money—and if money can be borrowed at all.

In fact, the effect of policy developed by the Fed on employment, economic growth, and inflation is considered to be equal in importance to the effects of fiscal policy established jointly by the President and the Congress.

As the most important single economic institution in the country, I believe that fundamental fairness demands that the Federal Reserve Board be a more democratic and representative institution. It is apparent by the other bills considered by this Committee today that others also join in saying that this Congress must take action to broaden the representation on this Board.

My suggestion for broadening representation on the Board is, first: To increase the membership from seven to nine members. We must also recognize and give new emphasis to the language in current law and restated in S. 1691 that the President "shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interest, and geographical divisions of the country" when nominating persons to fill Board vacancies.

Today I find it incredible that none of the current Board members had significant hands-on experience prior to their appointment in any of the industries tragically being slain by high interest rates.

It is a sad commentary that no home builders, no realtors, no automobile manufacturerrs, no producers of capital equipment, and no manufacturers of consumer durables serve on this council which makes life and death decisions over these activities. It is no surprise that small businessmen, builders, realtors, and manufacturers are up in arms as bankruptcies soar from high interest rates.

An all-powerful Board that is removed from the financial realities of American business must be remodeled.

If you look at a list of the present Board, you see that five Governors were previous employees of the Federal Reserve System, and one Governor who was not, Mr. Schultz, is leaving the Board soon. Such inbreeding thwarts the implementation of new ideas.

I ask that this list of Governors be inserted in the record.

[List of Governors follows:]

THE MEMBERS OF THE FEDERAL RESERVE BOARD OF GOVERNORS

Member	Appointed by	Previous position
Paul Volcker	Carter	Assistant Secretary of Treasury under Kennedy, Undersecretary under Nixon.
Lyle Gramley	Carter	Council of Economic Advisers under Carter.
Henry Wallich	Nixon	Consultant to the Federal Reserve Board.
Charles Partee	Ford	Division of Research in the Fed.
Nancy Teeters	Carter	Board staff.
Emmit Rice	Carter	New York Fed.
Fred Schultz	Carter	Florida banker.

Mr. Chairman, millions of Americans are deeply suspicious over the motives of a narrow class of individuals who make decisions of national significance behind closed doors. And they have every right to feel that way.

Recently, Congressman Wright stated that the new member of the Federal Reserve should be a person who has had to struggle with the real-world problems of operating grass roots enterprises and the suffocating climate of high interest rates. I agree with this judgment.

Another sorely needed reform is to shorten the terms of office from the current 14 years. This change also involves a question of fairness, but this time it is a matter of fairness to the people under our democratic process and to the President of the United States. Every President is judged, to a large degree, by how well the economy performs during his tenure.

Therefore, no matter what monetary policy a Board devises, it will be the President who will shoulder the responsibility for their decisions. Yet the Board members who dictate policy do not necessarily reflect the philosophy of our Nation's chief Executive officer when they make key economic decisions.

I believe that the President should have more tools to manage the economy for which he is held liable. Therefore, my bill shortens all Board terms to 5 years and requires the Board chairman and vice chairman to serve at the pleasure of the President. These changes will give our chief executives more ability to chart the monetary policy they feel will be best for our economy.

A legislative change is essential at this juncture. Presidents should not be praised or blamed for national economic performance over which they have no control. Authority and responsibility must go hand in hand.

Traditionally, some have claimed that managing the Nation's money is too important a responsibility to give to politicians, the President included. However, the erratic monetary policy of the seventies is sufficient proof to indict the present system, I feel.

Even if monetary policy in the seventies had been better, the logic supporting the view that money is too important for politicians to manage is open to question. The Constitution gives politicians the power to declare war. Isn't the matter of war and peace at least as important as managing money? I wonder how many people feel that the founding fathers made a mistake by not turning over the power to declare and prosecute wars to an independ-

ent body, free from the pernicious effects of politicians? Probably not many people.

FED DETERMINES ITS OWN BUDGET

Congress has abdicated another of its most essential powers, the power of the purse. Unlike virtually every other Federal operation, the Federal Reserve System is in the enviable position of determining its own budget. This unchecked budget bonanza includes both the dollar level and all specific uses of taxpayer funds.

Under current law, the Federal Reserve receives interest payments from the Treasury for holding over $130 billion of U.S. securities. These holdings now generate a cash flow of over $12 billion. After using what they deem desirable, the Board of Governors transfers any remainding funds back to the Treasury.

In fiscal year 1982, the Federal Reserve System will therefore spend over $1 billion without Congressional oversight. I find it shocking that anyone would recommend giving a blank check to any agency during this time of intense review of Federal spending. Is the Fed so sacrosanct that we should continue to self-sensor Congressional budget cutters?

S. 1691 therefore requires that expenditures of the System be approved as part of the annual appropriations process.

Given widespread complaints about their lavish expenses, the natural result from signing blank checks, I have also asked the GAO to audit the System and report back to me by February 1, 1982, its findings. When completed, I will distribute the report to the committee.

The need for more review of the Fed is demonstrated from the growth in their expenses. During the period 1950 to 1980, total expenses for the Board of Governors alone went up 1,700 percent, from $3 million to $62 million; and total expenses for the entire Federal Reserve System went up 800 percent, from $77 million to $791 million. During the same period, the consumer price index went up 244 percent.

Should the standard of living for the Fed be rising so rapidly, at a time when the standard of living for the American people is not growing and, in many cases, is falling? I think the Congress owes the country an explanation for this.

Mr. Chairman, the problems I have outlined today relating to the Federal Reserve System are not new. I would like to read the following illustrations:

This is a quote from hearings before the 88th Congress, the House Subcommittee on Domestic Finance, August 25, 1964:

> Representative WELTNER: Now we believe in a system of checks and balances most assuredly that we have in the Government. We have three branches of Government. Yet on this matter there is no check and no balance because the only information that the public gets is what the Fed Reserve itself desires to hear. I don't think that's a healthy situation.

The report issued by the subcommittee in 1964 also contained the following conclusion:

> It is an axiom of public law and public administration that unwarranted variations in public policy and procedure, as between one agency and the other, are capricious and undesirable. When a case can be made out for differentiation, variations in procedure of course are acceptable. But in the opinion of staff, no valid

case has been made for exempting the Federal Reserve from the budgetary process. On the contrary, the absence of Congressional review appears to have engendered variation in policy from bank to bank with some more stringent than others in the standards applied. In particular, some banks showed a strong propensity to become involved in community affairs that seem remote from their monetary and banking responsibilities, or to carry on research projects that are only remotely related to their institutional responsibilities.

To conclude, Mr. Chairman, millions of Americans, in my opinion, have rightfully concluded that major changes are needed to democratize the monetary policy of our country and the way our central bankers are funded.

The facts show that money matters, especially in mismanaged money supply, can retard the growth and cause unemployment.

I applaud this committee for holding these important hearings, and I look forward, along with the full Senate and the American people, to your recommendations, because you are the experts.

Thank you.

The CHAIRMAN. So you threw it right back to me. [Laughter.]

I just have one question. It is a similar question that Senator Pressler and others who are pushing for specific statutory changes in the makeup of the Federal Reserve Board have been asked. I do not want to repeat at great length, but in theory I can agree and understand what is being said. There is some rationale for it.

In practice, let us look back at the 7 years I have served on this committee and look at the response of Congress in fiscal policy. We blamed the deficits on Presidents. A President can recommend a budget; he can plead, yell, scream, shout; he can veto. But all of the money bills originate here.

The first year I was here, Gerald Ford asked for $295 billion. The Congress approved $318 billion. So, in my term, we have gone from a first budget over $300 billion to one in excess of $700 billion.

So, my point—if we attempted to so-called make the Fed more responsive, I would more accurately term it, politicize it, let us have more say in what is going on—I know what would have happened. We would have had the loosest money policy of all. And again, I do not always agree with the Fed. I am very vocally critical of them often.

I do not know whether you were here when Senator Pressler was testifying. We had actual legislative proposals in 1975, to mandate a 13- to 15-percent increase in the money supply. Now, if we had politicized it—and that has always been the easy way out, at least while I have been here. Make everybody happy, fund this program, fund that program for them, and the intense pressures—if we could also do that with the money supply, it would always have been on the side of easy money. And I cannot imagine what the inflation rate on the condition of the economy would be.

Philosophically, I cannot disagree with what is wrong with having Congress oversee the budget of the Fed. They have been a profitmaker. They returned $7, $8 billion a year to the general Treasury, over and above what they have spent.

I cannot disagree, again, philosophically that we ought to have more control, but the practical application, I think, would have been disastrous.

FED INDEPENDENCE VITAL TO BALANCED POLICY

That leads me back the other way, to say that the Fed ought to maintain its independence. Because I really think, with all of the mistakes they have made, they have done one heck of a lot better job on the monetary side than we have done on the fiscal side.

The story I like to use—because I think it illustrates my point so well—is when I was Mayor of Salt Lake City: When I needed a new fire chief I did not go out and hire the number one arsonist in the Utah State Prison.

If we have problems with monetary policy, do we go to the burglers on fiscal policy, and say, "You have done such a lousy job with fiscal policy we think you ought to have more say in the monetary policy of this country, to bring it right down to cases"?

I do not know that I particularly have a question. I wanted you to understand what my feelings were, after listening to testimony for 7 years. And it comes out again with—despite the criticism of the Fed on many instances, that their independence is vital to having a balanced policy, rather than being dominated by politics and politicians who seem to always want to please constituents before doing what is right.

Senator HAWKINS. Mr. Chairman, your philosophical view seems to be that you do not object to more Congressional oversight, but in practice it would be disastrous for the Fed to lose its independence. But this does not need to be an "either/or" situation, rather "both/and." The Fed can be independent and accountable.

As former Fed Chairman Martin used to say, the Fed is "independent within the Government, not of the Government." Unfortunately, this is not the case. Today the Fed is totally independent of the Government. I don't think anyone would object to independence within the Government just as the judiciary is independent within the Government. Independence guarantees that decisions and policy do not fluctuate with the interests of certain individuals, but remain stable for the benefit of the entire Nation.

My bill will make the Fed independent within the Government. The decisions of the Fed will be final and not subject to review by Congress or the President. The two policymaking bodies of the system, the Board of Governors and the Federal Open Market Committee, will continue to form policy at their own discretion.

At the same time the Fed would have to account to Congress for its expenditure of public money. As you pointed out, they voluntarily remit $10-$12 billion annually back to the Treasury, but they will keep in excess of $1 billion in 1982 for operating expenses. They may have remitted more if they had been on a budget. For example, the Federal banks have purchased art work totaling $1.8 million, and that is, original cost not fair market value. I might add, the Fed is a creature of Congress and it is our responsibility to oversee their expenditure of public money.

The CHAIRMAN. You may be right on the first point. They may have made more money. It would have been tighter, although I tend to doubt that with Congress' ability to spend money in the past. But on the second point, as a member of the Appropriations Committee, I will guarantee you that the agencies who are under the appropriations process are very responsive. I cannot believe

how much nicer some of the agencies treated me when I became chairman of the HUD and Independent Agencies subcommittee. I had all kinds of new friends all at once.

So, they seem to think that Congress has some control. I really do think the appropriations process does undermine their independence. I do not know how you would work that out so that you could monitor that without taking it away. But I think the power of the purse is very great.

Senator HAWKINS. Mr. Chairman, I believe we can monitor the Federal Reserve System without undermining its independence. The judiciary is a prime example of this. The judicial branch of Government is subject to the appropriations process, yet their decisions remain final.

One could argue that the Federal judiciary is better insulated from political influences because judges have life tenure, while Board Governors have shorter terms. However, judges must abide by the Constitution and the Federal statutes when formulating judicial opinions. Compare this situation to the Board. Granted the Governors will have shorter terms, but they form policy at their own discretion not within the limits of the U.S. Constitution or statutes.

In any event, Governors have not been serving out their full 14 year terms. In fact, over the last 20 years, the average term was 5.5 years and in the last 10 years the average term was 3.6 years. So, it seems unreasonable to retain such long terms for them when they come and go rather rapidly.

I am also outraged at what seems to be the incestuous relationship between being a former employee of the Federal Reserve and being appointed to be a Federal Reserve member. I think you should look carefully at that and the way history has handled that in the past.

The CHAIRMAN. On that point, we entirely agree, and I thank you very much for your testimony.

Senator HAWKINS. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Burdick, would you like to sit right there?

Senator BURDICK. Sure.

STATEMENT OF QUENTIN N. BURDICK, U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator BURDICK. Mr. Chairman, thank you for this opportunity to express my views on the next appointment to the Board of Governors of the Federal Reserve Board.

As proposed S. Con. Res. 40 indicates, I hope the President will require farming or small business experience among the qualities he seeks in an appointee. I also hope the Banking Committee and the Senate will formally make that recommendation to the President.

Mr. Chairman, when the Federal Reserve was authorized, the Congress instructed that appointments to the Federal Reserve Board should include representation of agricultural and commercial interests and geographic divisions in the country. As we all know, the Board of Governors does not adequately reflect those criteria today.

Mr. Chairman, the President will appoint an individual to the Federal Reserve Board who shares the President's views on money and credit policies. That is to be expected from this or any President. I am confident, however, that the President can find such an individual who also has farming or small business experience.

Mr. Chairman, the Reagan economic plan has give rise to budget deficits of staggering proportions. Short-term interest rates in the 9th Federal Reserve District which includes my State hit a record 18.04 percent earlier this year. Long-term loans from other than Government sponsorship were almost nonexistent. I have seen figures that indicate bankruptcies among small businesses are up 21 percent over last year. Prices for farm commodities are far below the cost of production. Every successive prediction by an administration official indicates the recession will be deeper and longer than the previous prediction indicated. A Federal Reserve economist has said two out of three savings and loan institutions are insolvent when measured in real terms.

This committee, under your leadership, Mr. Chairman, is looking at initiatives for restructuring the financial services industries. Chairman Volcker has his proposals that express particularly the condition of the economy and its effect on mutual savings institutions. Under these proposals, or even under existing authority, if the current condition of the economy continues into next summer, the Federal Reserve will be playing an important role not only in money and credit policies, but also regarding merger and acquisition activity within the financial services industry.

As I talk to people in North Dakota and the region, I have found an increasing distrust of the Federal Reserve. The independent nature of the Federal Reserve does not lend itself to establishing confidence from member institutions or farms and small businesses who are so seriously affected by the Fed's policies. The Fed appears to have followed the Reagan administration's wishes step by step this year.

APPOINTMENTS TO REFLECT VARIOUS INTERESTS

Yet the appearance of lack of accountability through elective process, or through an ejective process once a member has been appointed to the Board, can, of its own weight, cause anxieties among those who are conscious of Fed policies. The framers of the Federal Reserve System understood that when they specifically requested appointments to the Board of Governors reflect various geographic and economic interests.

Mr. Chairman, given the huge pressures this President's economic plan places on the Federal Reserve, its policies are crucial. If the Fed is going to develop and express its policies in a credible manner to the broad spectrum of our economy, the President should appoint to the Board someone to provide an avenue to agriculture and small business.

Thank you, Mr. Chairman, for this opportunity to express my views.

The CHAIRMAN. Thank you, Senator Burdick. We appreciate your willingness to testify, and I would repeat briefly what I have said in my opening statement, that I feel very strongly that the current

makeup of the Board is not what it should be. It has people who have, may I say, grown up with the Federal Reserve System, primarily economists.

I feel very strongly also that the law requiring the President to consider a broad aspect is sufficient. So, rather than having actual statutory changes, I think this committee can make certain that this administration adheres to the law as outlined. This is not new with this committee. We were very strongly on record during the last appointment of Lyle Gramley to the Fed by President Carter. We did not reject him because we did not announce that policy until he came up and we did not feel it was fair to him to make him the scapegoat of our new policy.

But again, one of the reasons for these hearings today is to let this administration know that I think not only the chairman but a majority of the members of this committee on both sides of the aisle, without the necessity of going to statutory changes in the makeup of the Board. We will make sure that the 1913 and the 1922 laws are followed as to geographical distribution and get represention from other than the economists.

My favorite story is, economists get to Washington by going to Harvard and turning left, and I think we have far too many of them around this town. And so it might be nice to have some good old-fashioned businessmen, who don't know what an econometric model is but have good old-fashioned horsesense to contribute to the deliberations on the Board.

I appreciate your willingness to testify today.

Senator Burdick, do you have anything else to add?

Senator BURDICK. I appreciate what you said, Mr. Chairman. I am pleased to hear the position of the committee and the appearance of nonmembers. If it gives strength and support, we are happy to be here.

The CHAIRMAN. Thank you very much. The committee is adjourned.

[Whereupon, at 3:20 p.m., the hearing was adjourned.]

[Copies of the resolutions and bills referred to and additional statements and data received for the record follow:]

III

97TH CONGRESS
1ST SESSION

S. RES. 209

Expressing the sense of the Senate that the President of the United States, the United States Senate, and the Senate Committee on Banking, Housing, and Urban Affairs should pay careful deference to the specific provisions of the Federal Reserve Act, requiring broad regional and economic representation on the Board of Governors of the Federal Reserve System, in their consideration of nominees to the Board.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 11 (legislative day, SEPTEMBER 9), 1981

Mr. JEPSEN (for himself and Mr. GARN) submitted the following resolution; which was referred to the Committee on Banking, Housing, and Urban Affairs

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RESOLUTION

Expressing the sense of the Senate that the President of the United States, the United States Senate, and the Senate Committee on Banking, Housing, and Urban Affairs should pay careful deference to the specific provisions of the Federal Reserve Act, requiring broad regional and economic representation on the Board of Governors of the Federal Reserve System, in their consideration of nominees to the Board.

Whereas the Board of Governors of the Federal Reserve System directly oversees the growth of the monetary aggregates, the availability of credit and monetary policy generally, all

of which substantively affect every sector of the national economy;

Whereas the Federal Reserve Act of 1913, as amended, decrees that not more than one Governor shall be selected from any one Federal Reserve district, and that due regard shall be given to a fair representation of financial, agricultural, industrial, and commercial interests, and geographical divisions of the country;

Whereas the present composition of the Board does not conform to the spirit of these statutory provisions and no President since 1959 has appointed an individual from either the agricultural or commercial sector to the Board of Governors;

Whereas the impact of Federal Reserve policy is particularly significant on those constituencies which by law are to be represented on the Board;

Whereas small businesses constitute the largest part of the agricultural and commercial sectors of the economy;

Whereas the problem lies not with the statutory language of the Federal Reserve Act;

Whereas the United States Senate, in Senate Resolution 434, Ninety-sixth Congress has already expressed its concern about past insensitivities to the requirements of the Federal Reserve Act; and

Whereas the next vacancy on the Board of Governors of the Federal Reserve System will occur January 31, 1982, and preparations for the nominations will commence soon: Now, therefore, be it

Resolved, That in recognition of the fair representation provision in the Federal Reserve Act of 1913, as amended,

the President of the United States, the United States Senate and the Senate Committee on Banking, Housing, and Urban Affairs should assure that the specific provisions of the Federal Reserve Act providing for agricultural, commercial (including small business), and broad regional representation on the Board of Governors are, henceforth, followed.

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III

97TH CONGRESS
1ST SESSION

S. RES. 247

Expressing the sense of the Senate that the next vacancy on the Board of Governors of the Federal Reserve System should be filled by a person with substantial small business experience.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 23 (legislative day, NOVEMBER 2), 1981

Mr. WEICKER submitted the following resolution; which was referred to the Committee on Banking, Housing, and Urban Affairs

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RESOLUTION

Expressing the sense of the Senate that the next vacancy on the Board of Governors of the Federal Reserve System should be filled by a person with substantial small business experience.

Whereas interest rates have reached record high levels in 1981;

Whereas high interest rates are having a devastating effect on the credit-sensitive sectors of the economy, particularly small businesses, which includes small farms;

Whereas business bankruptcies are nearly 50 per centum above 1980;

Whereas Federal Reserve System money and credit policies directly affect the cost and availability of credit;

Whereas section 10 of the Federal Reserve Act of 1913, as amended, provides that in submitting nominations for the Board of Governors of the Federal Reserve System, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country;

Whereas the Ninety-sixth Congress adopted S. Res. 434 stating the sense of the Senate that nominations to the Board of Governors of the Federal Reserve System should reflect consideration of the requirements for regional and economic interest representation;

Whereas over 97 per centum of the businesses in the United States are small businesses, which account for nearly 50 per centum of the gross national product, 90 per centum of the new jobs created in the private sector, and nearly half of the Nation's industrial innovations;

Whereas the term of service of one of the members of the Board of Governors is expiring on January 31, 1982; Now, therefore, be it

Resolved, That it is the sense of the Senate, that the next vacancy on the Board of Governors of the Federal Reserve System should be filled by an individual who has substantial small business experience.

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III

97TH CONGRESS
1ST SESSION

S. CON. RES. 40

Expressing the sense of the Congress that the President should fill the 1982 vacancy on the Federal Reserve Board with a person of substantial small business or agricultural experience.

IN THE SENATE OF THE UNITED STATES

OCTOBER 7, 1981

Mr. BURDICK submitted the following concurrent resolution; which was referred to the Committee on Banking, Housing, and Urban Affairs

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CONCURRENT RESOLUTION

Expressing the sense of the Congress that the President should fill the 1982 vacancy on the Federal Reserve Board with a person of substantial small business or agricultural experience.

Whereas small, independent enterprises form the backbone of America's economy, provide the key to improved productivity, generate much of our innovation and economic growth, and keep alive the best tradition of free enterprise in America;

Whereas Congress has determined that economic progress depends upon adequate growth in the money supply and affordable interest rates;

Whereas the Federal Reserve System's Board of Governors regulates the Nation's money supply and has a major impact on our interest rates;

Whereas the persistent tight-money policy of the Federal Reserve Board is fostering inflationary interest rates, driving thousands of small businesses and farmers into bankruptcy, undermining the housing and auto retail industries, and is frustrating economic recovery;

Whereas the Federal Reserve Board has refused to alter its policy, despite the hardship this policy has inflicted on small, independent enterprises in our country;

Whereas the Federal Reserve Act of 1913, as amended, states that the Federal Reserve Board should have a fair representation of business, farming, and regional interests, as well as financial interests; and

Whereas the present Federal Reserve Board does not conform to the spirit of this Act since it consists almost entirely of high-finance economists and bankers, and lacks representation from either the small business or family farm communities, which understand first hand the impact of high interest rates: Now, therefore, be it

Resolved by the Senate (the House of Representatives concurring), That it is the sense of Congress that the President should fill the 1982 vacancy on the Board of Governors of the Federal Reserve System with a person of substantial small business or farming experience who can genuinely represent the interests and needs of independent businesses and producers in the formation of our Nation's monetary policy.

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II

97TH CONGRESS
1ST SESSION

S. 971

To make the term of the Chairman and Vice Chairman of the Board of Governors of the Federal Reserve System concurrent with the term of the President of the United States.

IN THE SENATE OF THE UNITED STATES

APRIL 9 (legislative day, FEBRUARY 16), 1981

Mr. CRANSTON introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To make the term of the Chairman and Vice Chairman of the Board of Governors of the Federal Reserve System concurrent with the term of the President of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the third sentence of the second paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 242) is amended by striking out "term of four years" each place it appears and inserting in lieu thereof "until such time as the term of the President making such designation shall expire".

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II

97TH CONGRESS
1ST SESSION

S. 1609

To amend the Federal Reserve Act to revise provisions relating to the Board of Governors of the Federal Reserve System, and for other purposes.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 10 (legislative day, SEPTEMBER 9), 1981

Mr. PRESSLER (for himself, Mr. MELCHER, Mr. BAUCUS, and Mr. ANDREWS) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend the Federal Reserve Act to revise provisions relating to the Board of Governors of the Federal Reserve System, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 10 of the Federal Reserve Act (12 U.S.C. 241) is amended by—

(1) striking "fourteen years" and substituting "seven years",

(2) inserting immediately before the last sentence the following: "At least one member serving on the

Board shall have demonstrable experience in small business and one in agriculture.", and

(3) by adding at the end thereof the following new sentence: "The President pro tempore of the Senate and the Speaker of the House of Representatives shall each appoint a person to serve as ex-officio members of the Board for terms not to exceed two years.".

(b) Section 11(a) of such Act (12 U.S.C. 248) is amended by adding the following new sentence at the end thereof: "The Board shall maintain statistics on loans made by size category of business in order that data may be accumulated with regard to interest rates and their effect on various categories of business by size.".

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I

97TH CONGRESS
1ST SESSION

S. 1691

To amend the Federal Reserve Act with respect to the terms of the Board of Governors of the Federal Reserve System, and for other purposes.

IN THE SENATE OF THE UNITED STATES

OCTOBER 1 (legislative day, SEPTEMBER 9), 1981

Mrs. HAWKINS (for herself and Mr. METZENBAUM) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend the Federal Reserve Act with respect to the terms of the Board of Governors of the Federal Reserve System, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Reserve Amendments of 1981".

SEC. 2. Section 10 of the Federal Reserve Act is amended by striking out the first and second paragraphs and inserting in lieu thereof the following:

"The Board of Governors of the Federal Reserve System (hereinafter referred to as the 'Board') shall be composed of nine members to be appointed by the President by and with the advice and consent of the Senate for terms of five years, except as hereinafter provided. In selecting the members of the Board not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interest, and geographical divisions of the country. Not more than one member of the Board may have served as a staff member of the Federal Reserve System. Of the members first appointed under the first sentence of this paragraph, one shall serve for a term of one year, two shall serve for terms of two years, two shall serve for terms of three years, two shall serve for terms of four years, and two shall serve for terms of five years, as designated by the President at the time of appointment. Thereafter each member shall hold office for a term of five years from the expiration of the term of his predecessor unless sooner removed for cause by the President. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified.

"Of the persons thus appointed—

"(1) one shall be designated by the President, by and with the advice and consent of the Senate to serve as chairman of the Board, and

"(2) one shall be designated by the President, by and with the advice and consent of the Senate to serve as vice chairman of the Board,

to serve at the pleasure of the President for a term ending on January 30, 1985. Thereafter, each member so designated shall serve as chairman or vice chairman for a term of four years from the expiration of the term of his predecessor. The chairman of the Board, subject to its supervision, shall be its active executive officer.

"Any person appointed or designated to fill an unexpired term shall serve only for the remainder of that term.".

SEC. 3. The members of the Board of Governors of the Federal Reserve System in office on the date of enactment of this Act shall continue to serve until five members of the Board, as provided for under the amendment made by section 2, have been appointed and have qualified.

SEC. 4. Section 7 of the Federal Reserve Act is amended by inserting immediately after the section heading the following new paragraph:

"The full amount of all interest, discounts, assessments, and fees received by Federal Reserve banks shall be paid or

credited by such banks to the Secretary of the Treasury and covered into the Treasury as miscellaneous receipts. The expenses of such banks may be paid only from such funds as may be specifically authorized or appropriated for that purpose.".

SEC. 5. (a) The third paragraph (12 U.S.C. 243) of section 10 of the Federal Reserve Act is amended to read:

"There are hereby authorized to be appropriated such sums as may be necessary to pay the expenses of the Board and the salaries of its members and employees.

SEC. 6. Section 117(e)(1)(A) of the Accounting and Auditing Act of 1950 is amended by inserting "annually" after "(A)".

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II

97TH CONGRESS
1ST SESSION

S. 1859

To amend the Federal Reserve Act to shorten the terms of office of the Board of Governors of the Federal Reserve System, and for other purposes.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 18 (legislative day, NOVEMBER 2), 1981

Mrs. KASSEBAUM introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To amend the Federal Reserve Act to shorten the terms of office of the Board of Governors of the Federal Reserve System, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Reserve Act Amendments of 1981".

SEC. 2. (a) The second sentence of the second paragraph of section 10 of the Federal Reserve Act is amended to read as follows: "Upon the expiration of the term of any member of the Board in office on the date of enactment of the

Federal Reserve Act Amendments of 1981, the President shall fix the term of the successor to such member at eight years, and thereafter each member shall hold office for a term of eight years from the expiration of the term of his predecessor unless sooner removed for cause by the President.".

(b) The last sentence of the second paragraph of section 10 of the Federal Reserve Act is amended to read as follows: "Any person appointed to be a member of the Board after the date of enactment of the Federal Reserve Act Amendments of 1981, shall not be eligible for reappointment after he or she has served a full term of eight years.".

SEC. 3. Section 12A(a) of the Federal Reserve Act is amended—

(1) by striking out "five representatives" in the first sentence thereof and inserting in lieu thereof "a representative of each"; and

(2) by striking out all after "Federal Reserve banks" in the second sentence and inserting in lieu thereof a period.

SEC. 4. Section 13 of the Federal Reserve Act is amended by adding at the end thereof the following: "Notwithstanding any other provision of this section, a Federal Reserve bank may increase or reduce the rates or rates applicable to advances and discounts under this section by not to

exceed one percentage point without review or determination by the Board of Governors if—

"(1) the sum of the amount of the proposed increase or reduction and the total amount of increases or reductions of the same rate or rates during the preceding twelve-month period by that bank does not exceed two percentage points; and

"(2) the differential between the rate or rates established by that Federal Reserve bank and the rate or rates established by any other Federal Reserve bank would not, after the increase or reduction, exceed three percentage points.

The Board of Governors shall establish procedures to limit access to any rate which may be established pursuant to this paragraph for a district and which is lower than a rate established by another Federal Reserve bank to borrowers located in the district in which the Federal Reserve bank establishing the lower rate is located.".

STATEMENT OF MARK ANDREWS, U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

I would like to take this opportunity to advise the members of the Banking Committee of my support for legislation to alter the structure of the Federal Reserve Board.

As a farmer myself, I am well aware of the terrible toll that high interest rates have taken on our Nation's farmers. In addition, there is a feeling throughout the country that those on the Federal Reserve Board who manage our monetary policy are insulated and thus insensitive to the problems average Americans are facing. Their concern and my concern is that the current composition of the Board virtually guarantees this type of problem.

We cannot expect a group of professional bankers and economists to be fully in touch with the economic troubles suffered by our farmers and small businessmen. They are simply too far removed. The solution is equally simple. We must insure that the Federal Reserve has the input of people who are directly familiar with the average Americans' concerns. Toward that end, I have joined Senators Pressler and Melcher in cosponsoring S. 1609 which would require that one member of the Board have demonstrable experience in small business and one in agriculture.

In addition, the bill, by shortening the terms of members and appointing ex officio members to the Board will insure that there will be a regular breath of fresh air when new approaches and insights can be used.

I believe that such changes will bring about the actual "working knowledge" needed to assure that the Board's actions are more in tune with the actual needs of our economy.

TESTIMONY OF DAVID L. TOMLINSON, PRESIDENT, UTAH COUNCIL OF SMALL BUSINESS, CHAIRMAN, NATIONAL SMALL BUSINESS UNITY COUNCIL

Mr. Chairman and members of the committee, as part of the White House Conference on Small Business last year, participants were asked to compile a list of recommendations to the President they felt would best serve the small business segment on their implementation.

One of the recommendations considered to be a "high priority" issue by the conferees states:

"Small business representation in economic and regulatory decision-making should be increased. This should include . . . appointing small business persons to all national boards, commissions and advisory committees whose work impacts small business."

This compliments the section of the U.S. Code pertaining to the Presidents appointment of the Board of Governors to the Federal Reserve System. The Code, Sec. 241 of Title 12 Banks and Banking, implies that the President should attempt to establish a fair representation of regional as well as a cross section of the various commerce segments in the Board of Governors appointments.

We support the President and Congress in their efforts to select the most qualified individuals to guide the Federal Reserve System. We are not seeking to bind the Presidents decision in any way. We are however strongly urging that the President and Congress recognize that it is the small business segment of the economy which is most sensitive to the Government's fiscal planning.

In this period of record-high small business bankruptcies linked with record-high rates of interest, we urgently suggest that an appointee with a small business background will have a much better understanding of how Federal Reserve policy will directly effect the small businessperson.

This is why we support the Jepsen/Weicker et al. amendment that encourages the next vacancy on the Federal Reserve's Board of Governors to be filled by an individual with "substantial small business, agricultural or other small business experience."

[From the Washington Post, Nov. 21, 1981]

THE SEAT AT THE FEDERAL RESERVE

Sen. Jake Garn, the chairman of the Banking Committee, raises the question of representation on the Federal Reserve Board—and the question is valid. In January, one of the board's seven seats becomes vacant. There's been no hint that the administration has an appointment in mind, or has even given the matter much thought. Public discussion—and there's been very little—has been generally in

terms of the rights and lefts of Washington politics. Sen. Garn is making a broader point.

The Federal Reserve Board is an agency of great independence and great influence—not only over the money supply but over the structure and operation of the financial industry. Most of the present seven members are professional economists who have spent much of their careers in the service of the government and of the Federal Reserve System itself. The principal exception is Frederick H. Schultz, the Florida banker whose term is now expiring. It is a Board of great intellectual capacity and enormous technical sophistication. But it is also something of a mandarinate. As Sen. Garn observes, it's a pretty sound rule that a Board of this sort, with broad and final authority over policy, ought to reflect a diversity of perspectives—including, perhaps, the perspectives of some of the people whose affairs it regulates.

No one wants to see people appointed to this crucial Board as representatives of interest groups—of the farmers, say, or the consumers, committed to voting reflexively for fixed positions. But in a large and heterogeneous democracy, demands for participation deserve respect.

The Federal Reserve is traversing a dangerous period. Its present monetary policy is correct, but the melancholy truth is that being correct does not always protect an institution from attack. The process of working down the inflation rate is generating political dilemmas that will get increasingly uncomfortable as the next presidential election draws closer. To get the Board through the next several years without serious assaults on its traditional independence will not necessarily be easy. President Reagan can reduce the danger by using the January appointment to broaden, in a useful degree, the present membership.

Where might he best look for a candidate? Under the double pressures of very high interest rates and deregulation, the financial institutions have been thrown into a state approaching revolution. Perhaps the ideal choice might be a knowledgeable banker from the West, who knows a lot of farmers but doesn't always agree with them—and who gets along well with economists.

CARIBBEAN FEDERAL SAVINGS
AND LOAN ASSOCIATION OF PUERTO RICO,
Carolina, Puerto Rico, January 2, 1981.

Hon. RONALD REAGAN,
President-elect,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: Enclosed you will find a photostatic copy of a letter addressed to The Hon. James Carter, which speak for itself.

I have not received any response to said letter, and I would like respectfully your comments on my observations.

Sincerely yours,

RAUL PEÑAGARICANO,
President.

CARIBBEAN FEDERAL SAVINGS
AND LOAN ASSOCIATION OF PUERTO RICO,
Carolina, Puerto Rico, August 21, 1980.

Hon. JAMES CARTER,
President,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: The Depository Institutions Deregulation and Monetary Control Act (H.R. 4986), recently enacted into law, contains a substantial number of innovatory provisions, which are advantageous to the Thrift industry and have been warmly received.

On the other hand, the regulatory implementation and monitoring of these new measures has been essentially entrusted to the Federal Reserve Board.

The Thrift industry will thus henceforth be subject to significant regulatory supervision by the Federal Reserve, while still basically under the jurisdiction of the Federal Home Loan Bank Board.

As President of Caribbean Federal Savings and Loan Association of Puerto Rico, and as former President of the Puerto Rico Savings and Loan League, I respectfully want to convey to you the concern of the national Thrift industry, including Puerto Rico, that under the new Act, the Federal Reserve Board, as presently structured, for reasons deeply rooted in its historical trajectory, may not adequately enhance

the interests of the Thrift industry, which the Act was designed to develop and protect.

I urge you to ponder these concerns and to respond to them by appointing to serve on the Federal Reserve Board a member who thoroughly understands and is sympathetic to the interests of the national Thrift industry.

Sincerely yours,

RAUL PEÑAGARICANO,
PRESIDENT.

STATEMENT OF SENATOR NANCY LANDON KASSEBAUM

Mrs. KASSEBAUM. Mr. Chairman, as a former member of the Banking Committee, I appreciate the opportunity to submit my comments for the record of these important hearings. I am sure that those testifying share my relief at the recent reductions in interest rates, but this does not eliminate our interest in securing some structural modifications in our monetary control system.

The prompt convening of these hearings underlines the continuing need for addressing these fundamental and enduring concerns. None of these proposals will have a direct effect on interest rates. Mine is certainly not intended to do so. It is designed to enable the Federal Reserve System to more accurately respond to divergent needs with the economy. I applaud the efforts of my colleagues in this regard and the interest of others testifying at the hearing.

My legislation, S. 1859, replicates the policy evident in other bills by reducing the term for members of the Board of Governors from 14 years to 8 years. While I wholeheartedly support the political independence of the Fed, I believe 14 years is longer than necessary to accomplish this goal and has the effect of insulating them from the impact of their policies. Further, I contend that accelerating the turnover rate on the Board will encourage new ideas and innovative inquiries into alternative methods of monetary control. I am pleased that this idea has relatively broad support, and I hope that it will soon become law.

A second matter treated by my bill is representation on the Federal Open Market Committee. As the members of this Committee are well aware, the FOMC is the key policymaking body in the Federal Reserve System. It assumes this role through its authority to determine the extent to which the Federal Reserve System buys and sells Government Securities. The FOMC is presently comprised of 12 members; the 7 Governors of the Federal Reserve Board and 5 of the 12 presidents of the district Reserve banks. The president of the New York Fed is a regular member, the Chicago and Cleveland president serve in alternating years, and of the remaining nine, each serves 1 of every 3 years.

I propose allowing all 12 district presidents to serve on a regular basis. I understand the concerns that this would make the FOMC more bureaucratic and unwieldly. However, since most of them already attend FOMC meetings, there would be no real operational change. By granting each of them voting rights, the bill makes the district presidents a majority on the Committee, and I believe this diffusion of control is entirely consistent with our traditional concept of federalism. Finally, it would give often overlooked areas, especially rural and agricultural parts of the country which are dramatically affected by the Federal Reserve System, an additional voice in the formulation of our monetary policy.

Finally, and perhaps most importantly, my bill would give the district Reserve banks added freedom in modifying the discount rate—the rate they charge on loans to member banks. Currently, they can make changes only if they have the approval of the Board of Governors. The likely result is a homogenous rate structure throughout the Nation. This consequence is not inherently bad, indeed it is probably necessary to promote stability. However, it does discourage minor, temporary alterations that could help meet unusual economic conditions in various regions of the country.

My bill would permit sufficient flexibility for meeting these needs without harming overall monetary and economic policy. It would do so by giving district Reserve banks the authority to change their discount rates without Federal Reserve Board approval, subject to certain restrictions. First, each change must be 1 percent or less and the total change in one direction in the previous 12 months cannot exceed 2 percent. Second, the maximum difference allowed between the highest and lowest discount rates is 3 percent. The interplay of these two factors will insure that changes are not made without careful consideration of national policies. Finally, the Federal Reserve Board is directed to draft regulations to insure that the benefits of lower discount rates are confined to the district which has established that lower rate, regardless of whether it results from an actual reduction in the discount rate or from maintenance of its rate when others have increased theirs.

Again, I wish to express my gratitude for the committee's time and effort in conducting this hearing. I am confident that continued thoughtful deliberation by this committee and by the full Senate will enable us to reach a consensus on the institutional changes best suited to our long-term needs. I look forward to working with the members of the Banking Committee on this task.

STATEMENT OF ROBERT BRENTON

Mr. BRENTON. Mr. Chairman, my name is Robert Brenton and I am here this afternoon to offer testimony in support of Senate Resolution 209, a sense of the Senate resolution introduced by you and Senator Jepsen on September 11.

As you are aware, the language of Senate Resolution 209 directs the President, the Committee on Banking, Housing, and Urban Affairs, and the Senate to consider the nomination of an individual with substantial agricultural or other small business background to the Federal Reserve System's Board of Governors when Frederick Schultz' term expires in a little more than 6 weeks from today. The resolution is an important one. I congratulate both you and Senator Jepsen on your initiative.

While the statutory rationale or Senate Resolution 209 could not be stronger, I will restrict my comments to the commonsense thinking behind the Jepsen-Garn proposal. Specifically, I want to speak about the role of agriculture in the American economy and its particular sensitivity to monetary policy. As a longtime hog farmer and a banker who deals extensively with agriculture, I am hopeful that my familiarity with the practical side of the issue will be of some value today.

While the direct contribution of agriculture to gross national product is roughly 2.5 percent, the indirect impact exceeds 20 percent of

annual production in the United States. The employment figures are equally impressive; 3.5 percent of the labor force or 4 million workers are employed in farming and an additional 10 percent or 20 million jobs are wholly dependent on the sector.

Of course, both production and employment in agriculture is unevenly distributed across America. In some States farming is the basic industry. Iowa is a case in point. Almost 12 percent of our gross State product is agricultural produce; and well over 75 percent is dependent on the 12 percent. Of the Iowa work force, 14.5 percent is directly employed in agriculture and over 80 percent rely on it for their livelihood. Statistics throughout the Midwest are similar.

But these numbers only tell half the story. While employment and production are important, it is in the area of productivity and exports that agriculture really demonstrates its importance to the American economy. These are the key to future growth and in turn future production and future employment.

In the 1930's the average American farmer produced enough food to feed himself and 10 other people. Today, he feeds himself and 60 others. Over the last half century agricultural productivity has increased an astounding 250 percent. This compares with 130 percent in the manufacturing industries. The indications are that the trend is continuing. Of course, all the efficiency in the world doesn't mean a tinker's damn, if the product of that efficiency cannot find new markets. Fortunately, agriculture has been attentive to this need. From 1930 to 1978, exported food grew from negative 4.5 percent of production to 18 percent. In 1980, farmers sent $41.8 billion worth of goods overseas and this amounted to 19 percent of total U.S. exports. Considering agriculture's direct contribution to GNP, this figure is enormous in relative terms.

Iowa's performance in this regard is noteworthy. Of the 19-percent total, Iowa exports 8.1 percent or one-third of U.S. agricultural trade. We are ranked first in meat, second in feed grains and soybeans, fourth in hides and skins, and fifth in diary products. Overall, only Illinois surpasses our trade performance.

In summary, the contribution of agriculture to the American economy is far greater than the actual number of people directly involved in the sector. It is not only in terms of production and secondary employment that this is true. Both productivity and export expansion over the last 50 years have outperformed every other sector. The health of agriculture determines in many respects both the short- and long-term health of the entire economy.

This brings me to the second topic I want to deal with today: credit sensitivity. Not only do farmers work 18-hour days and 7-day weeks, year in and year out, they do so almost exclusively on credit. Before a young farmer can even get started, he or she requires enormous capital. If that capital is costly, the dream of owning a farm disappears. The margin between profit and loss is just too small. And, even if that obstacle has been overcome, credit needs continue. In any given year, capital requirements can be deferred, but eventually the new tractor, baler, elevator, milking machinery, or other equipment must be bought. Loans to underwrite fertilizer and seed costs recur annually and cannot be put off.

While agriculture may not be the most credit-sensitive industry in the economy it certainly ranks high. The bottom line is that the cost

of capital determines absolutely the farmer's ability to survive. All the hard work, efficiency, and smart management in the world doesn't mean anything if interest rates are at 20 percent.

It is for these two reasons that I support Senator Jepsen's Senate Resolution 209. Both in terms of economic contribution and actual need, no other single group can hold a candle to America's farmers. They deserve the pending resolution and I am hopeful that the committee will agree.

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